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Finanční analýza společnosti Cathay Pacific

Financial Analysis of Cathay Pacific Company

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1. Introduction
2. Description of the financial analysis methodology
3. Company description
4. Financial analysis of Cathay Pacific company
5. Conclusion

Bibliography
List of Abbreviations
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“Herewith I declare that I elaborated the entire thesis, including all annexes, independently”

Ostrava dated 3rd May, 2013

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Contents

1 Introduction

The thesis is focused on financial analysis of Cathay Pacific. Cathay Pacific Airways Ltd. is the world's biggest international air-cargo carrier and its Hong Kong home is the busiest freight airport due to surging exports from China's Pearl River Delta. The Cathay pacific offers scheduled passenger, and cargo services to 172 destinations in 39 counties and territories. Moreover, It ranked 4th in the in the World Airline Awards in 2012

The aim of bachelor thesis is the financial analysis of the company Cathay Pacific by applying selected methods. In the process of the analysis common size analysis, financial ratios and pyramidal decompositions including analysis of influences are used. These methods can analyze the financial statements to comprehend the business and operation performance.

The bachelor thesis is divided into five chapters.

The second chapter describes the methods of the financial analysis, in this part, some foundational methods are introduced and how to use it. It is the elements, which provides the theoretical knowledge of the chapter four.

In the third part the description of the Cathay Pacific is made. It concentrates on the current situation of the company, included the history, main business, partners and main competitions in China. It also refers to the subsidiaries and associates.

The fourth part is focused on financial analysis of Cathay Pacific, which is the most essential chapter in the thesis. Here, methods described in chapter two are applied. The fourth part focus on analyze the financial statements over the period from fiscal year 2007 to 2011.

2 Description of the financial analysis methodology

This chapter concentrates on the induction of some basic methods for analyzing the company, included common size analysis, financial ratios, and pyramidal decompositions.

Financial analysis is useful to analyze a firm's financial position to identify its current strength and weakness and to suggest action that firm might pursue to take advantage of those strengths and correct any weakness. By selecting, evaluating and interpreting the financial data, combination with the business performance, the financial analysis can evaluate the efficiency of its company's operations, cost of management, the general qualification of their credit policies and the trustworthiness with money as based on a person's credit history.

The main sources of this part is from the book by michelle R.Clayman, Martin S. Fridson,George H. troughton (2008),and Scott Besley, Eugene F.Brigham (2008)

2.1 Common size analysis

Common size analysis can be used to identify trends in financial states, to estimate the trends and major differences, which is useful in comparative analysis. It concludes vertical common-size analysis and horizontal common-size analysis.

2.1.1 Horizontal common-size analysis

Horizontal common-size analysis is to analyze the evolution of financial statement data over the time or their change with respect to a given period as a benchmark. It can easily show the relative change and trends over the period.

2.1.2 Vertical common-size analysis

Compared with horizontal common-size analysis, the vertical common-size analysis is the most common one, which is compared to the accounts in a given period to a benchmark item in the same year. It arms to compare the proportions over times fir the company and compare the proportions with those of competitors, included total revenues, total assets, total liabilities, etc.). It can be calculated using two formulas: the absolute and relative changes

2.2 Financial ratio analyses

Using financial accounting, information provided by financial statements about the firms' position, the financial ratio analysis can assess the company's financial performance and financial condition in the future and determined expected earnings and dividends. The financial ratios are useful to show relationship among financial statement accounts within firms and between firms, which are the most appropriate for investors to compare the financial position with another firms. As for Cathay Pacific, it refers to ratios such as seats sold versus capacity, costs per passengers or flight miles and efficiency in using the investment in Cathay Pacific. In this part, four ratios will be introduced:

- Profitability ratios
- Liquidity ratios
- Solvency ratios
- Activity ratios

2.2.1 Profitability ratios

Profit is the aim of company operation. Every decision made by manager is related to the profit. Profitability is the result of policies and decisions. The higher profitability ratios, the stronger competitive position of the company is. It is combined with liquidity, assets debt on operating result

Operating profit margin

Operating profit margin is the operating income of all of revenue. The operating income is before interest and taxes.

$$\text{Operating profit margin} = \frac{\text{operating income}}{\text{total revenue}} \quad (2.1)$$

Net profit margin

Net profit margin is to measure the profitability of a company after all the cost, tells the investors the company's performance or its ability to generate profit

$$\text{Net profit margin} = \frac{\text{net income}}{\text{total revenue}} \quad (2.2)$$

Return on assets

Return on assets is to estimate what a firm all income from the investment, which has made in assets. It is a significant indicator to measure the efficiency of comprehensive utilization of assets.

$$\text{Return on assets} = \frac{\text{net income}}{\text{total revenue}} \quad (2.3)$$

Return on equity

It is used for estimating the ability of company to gain profit from every unit of shareholders' equity. The return on equity is affected by the financial leverage of the company

$$\text{Return on equity} = \frac{\text{net profit}}{\text{total equity}} \quad (2.4)$$

2.2.2Liquidity ratios

The liquidity is defined the ability to finance the current obligations, or short-term debt. The short-term, or current assets are more easily converted to cash (more liquid`) than long-term assets. These assets are listed in financial statements as current assets.

Current ratio

The current ratio is to identify the current assets to current liabilities, which is calculated as follows:

$$\text{Current ratio}=\frac{\text{current assets}}{\text{current liabilities}} \qquad (2.5)$$

According to the measure period, the current assets and current liabilities can be calculated. Although the higher current ratio, the more liquidity the company is, the low current ratio does not mean the current obligations cannot be omitted.

Quick ratio

Quick ratio is a more significant measure to liquidity. The quick ratio is also called acid test. It is similar to the current ratio, except it subtracting the inventory from the current assets. It is calculated as follows:

$$\text{Quick ratio} = \frac{\text{current assets}-\text{inventory}}{\text{current liabilities}} \qquad (2.6)$$

or

$$= \frac{\text{cash}+\text{short}-\text{term investments}+\text{receivables}}{\text{current liabilities}} \qquad (2.7)$$

Cash ratio

Cash ratio is provided a more segmental test to measure the capacity to satisfy the current debt by using cash and the equivalent. It is calculated as follows:

$$\text{Cash ratio}= \frac{\text{cash}+\text{short}-\text{term marketable investments}}{\text{current liabilities}} \qquad (2.8)$$

(2.8)

2.2.3 Solvency ratios

The company can finance assets in two ways: equity or debt. Company can raise funds through debt, which is the financial leverage, or borrowing. The financial leverage can affect the excepted rate of return realized by stockholders. The solvency ratios can estimate a company's level of financial risk. Included component-percentage solvency ratio and coverage ratios

Component-percentage solvency ratio is concluded debt -to-assets ratios, the debt-to-equity ratio, and financial leverage

Debt-to-assets ratio

It is a measure about the amount of assets to finance creditors, included short-term and long-term debt. Higher debt-to-assets ratio means higher debt which leads to higher risk to firms

$$\text{Debt-to-assets ratio} = \frac{\text{total debt}}{\text{total assets}} \tag{2.9}$$

Debt-to-equity ratio

Debt-to-equity ratio is to compare the relative between debt and equity capital

$$\text{Debt-to-equity ratio} = \frac{\text{total debt}}{\text{total equity}} \tag{2.10}$$

Financial leverage

Financial leverage is the proportion of total assets of the company to the total equity. And it reveals the relation between the assets and equity. The higher financial leverage ratio, the stronger power to use assets to debt is. It is defined as follows:

$$\text{Financial leverage ratio} = \frac{\text{total assets}}{\text{total equity}} \tag{2.11}$$

Coverage financial ratio

Coverage financial ratios capture the company's ability to satisfy its debt obligation, included interest coverage ratio and fixed charge coverage.

Interest coverage ratio

Interest coverage ratio calculates the revenue to finance the interest payment. The lower interest coverage ratio, the bigger the debt burden to company

$$\text{Interest coverage ratios} = \frac{\text{earning before interest and taxes}}{\text{interest payment}} \tag{2.12}$$

Fixed charge coverage

Fixed charge coverage ratio is similar to the interest coverage ratio, but it is an expansion of interest coverage ratio. It recognizes the impact from the lease.

$$\text{Fixed charge coverage ratio} = \frac{\text{Earning before interest and taxes} + \text{lease payment}}{\text{Interest payments} + \text{lease payments}} \tag{2.13}$$

Activity ratios are to measure how effectively the firm is managing its assets. The ratios are designed to evaluate the benefits produced by assets.

Inventory turnover ratio

Inventory turnover ratio is to measure the quality between the cost of goods sold and inventory. The lower turnover rate, the company may consider whether the company is holding damaged or obsolete goods, which are actually worthless their stated value. The inventory turnover ratio is defined as the follows:

$$\text{Inventory turnover} = \frac{\text{cost of goods sold}}{\text{average inventory}} = \frac{\text{varible operating cost}}{\text{inventory}} \tag{2.14}$$

Receivable turnover

The receivables turnover shows the member of times accounts receivables during the selected period. It indicates the efficiency of the company collecting their receivables

The receivables turnover ratio is defined as follows:

$$\text{Receivables turnover}=\frac{\text{total revenue}}{\text{average receivables}} \tag{2.15}$$

Long-term assets turnover

The long-term assets turnover ratio measures effectively ability, the company using plant and equipment, to generate et sales. The long-term assets turnover ratio is defined as follows:

$$\text{Long-term assets turnover}=\frac{\text{revenue}}{\text{average long}-\text{term assets}} \tag{2.16}$$

Total assets turnover

The total assets turnover ratio measures the ability of firm to use there assets of all turnover. It is expressed how efficiency the company invert their assets into all sales. It is calculated as follows:

$$\text{Total assets turnover ratio}=\frac{\text{total revenue}}{\text{total assets}} \tag{2.17}$$

2.3 Analysis based on Pyramidal Decompositions

Pyramidal decompositions are to show the basic ratio as a product of component ratios, which is able to analyze the sources of financial ratios' value. And what elements have significant effect on the value and evolution. The analysis based on

Pyramidal Decompositions is also known as DuPont analysis, where Return on Equity (ROE) is decomposed by three distinct elements: profit margin (which is generated by net income divided by total revenue); total asset turnover (which is calculated by total revenue divided by total assets); and financial leverage (which is calculated by the total assets divided by total equity). As mentioned before, ROE measures the return a company generates on its equity capital. To understand what elements drives the company's ROE, a useful method is to analysis its component parts. Furthermore, it shows that ROE is impacted by three measurement of the company operation when investors want to separate the effects of the taxes and interest: tax burden, interest burden and earnings before interest and tax margin. It is defined as follows:

$$\text{ROE}=\frac{\text{net profit}}{\text{equity}}=\frac{\text{net income}}{\text{revenues}}*\frac{\text{revenues}}{\text{total assets}}*\frac{\text{total assets}}{\text{equity}} \tag{2.18}$$

Net profit margin= $\frac{\text{net income}}{\text{revenues}}$

Assets turnover = $\frac{\text{revenues}}{\text{total assets}}$

Financial leverage= $\frac{\text{total assets}}{\text{equity}}$

or

$$\text{ROE}=\frac{\text{net income}}{\text{EBT}}*\frac{\text{EBT}}{\text{EBIT}}*\frac{\text{EBIT}}{\text{revenues}}*\frac{\text{revenues}}{\text{total assets}}*\frac{\text{total assets}}{\text{equity}} \tag{2.19}$$

Tax burden= $\frac{\text{net income}}{\text{EBT}}$

Interest burden= $\frac{\text{EBT}}{\text{EBIT}}$

EBIT margin= $\frac{\text{EBIT}}{\text{revenues}}$

So

ROE= tax burden* interest burden* EBIT margin*assets turnover*financial leverage

2.3.1 Method of gradual changes

Method of gradual changes is a method for quantification of influence. It enables to quantify the changes in some basic ratios, which are caused by the change in the component ratio.

In the case of decomposition with three components ratios, it can be expressed as follows:

$$\begin{aligned}\Delta x_{a_1} &= \Delta a_1 \cdot a_{2,0} \cdot a_{3,0} \\ \Delta x_{a_2} &= \Delta a_{1,1} \cdot \Delta a_2 \cdot a_{3,0} \\ \Delta x_{a_3} &= a_{1,1} \cdot a_{2,1} \cdot \Delta a_3\end{aligned} \tag{2.20}$$

where the meaning of the symbols are listed as follows:

x - basic ratio

Δx - absolute change in the basic ratio

a - component ratio

Δa - absolute change in the component ratio

2.3.2 Logarithmic decomposition method

The logarithmic method is to compare current change of all elements. The advantage is we need just one formula for the impart quantification regardless of how many component ratios we have. However, this method cannot apply to situations where the data is negative indicators of changes as they are used in calculating logarithms. The method works with the logarithm that expresses the effect of the i-th component ration on the change in the basic ratio is calculated as follows:

$$\Delta x_{a_i} = \frac{In\ I_{a_i}}{lIn\ l_x} \tag{2.21}$$

where the meaning of the symbols are listed as follows:

x - basic ratio

$\triangle$x - absolute change in the basic ratio

$l_x = \frac{x_1}{x_0}$ – index of change in basic ratio

$l_a = \frac{a_1}{a_0}$ – index of change in component ratio

3 Company description

Cathay Pacific Airways Ltd. became the world’s biggest international air-cargo carrier in 2010 and its Hong Kong home was the busiest freight airport due to surging exports from China’s Pearl River Delta. In this chapter, some basic information about Cathy pacific will be introduced in detail at first, and then the subsidiaries and associates will be described. After that I will concentrate on the main business of the Cathy Pacific. The alliance and partnership will be the following part. At the least, main competitors will be revealed. The main source of this part is from annual report 2011 and annual report 2012 of this company.

3.1 History and introduction

Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 172 destinations in 39 countries and territories. It is founded in Hong Kong in 1945, by Roy Farrell and Sydney De Kantzow. The pair began with two DC3 aircraft, 'Betsy' and 'Nikki', and operated passenger flights to Manila, Bangkok, Singapore and Shanghai. Now, the Cathay Pacific remains deeply committed to its home base, making substantial investments to develop Hong Kong as one of the world’s leading international aviation centers. Cathay Pacific is listed on The Stock Exchange of Hong Kong Limited, as are its substantial shareholders Swire Pacific Limited (“Swire Pacific”) and Air China. In addition to its fleet of 138 aircraft is included 88 Boeing aircrafts and 47 Airbus planes. Besides the average age of the passenger aircraft are about 9.7 years. The Cathay Pacific fleet continues to be critically modernized. Cathay Pacific continues to invest heavily in its home city and in 2012 had another 92 new aircraft due for delivery up to 2020. These new aircraft will enable the airline to offer significant benefits in terms of safety, efficiency and passenger satisfaction. the Cathay Pacific are Improving fleet efficiency and maintaining one of the world's youngest fleet to help it try to achieve the aim of being a the world's best airline.Cathay Pacific and its subsidiaries employ about

29,900 people worldwide, included more than 22,800 of workers in Hong Kong. What's more, Cathay Pacific is the proud sponsor of one of the few fully funded Cadet Pilot programs available worldwide, and currently employs just over 2,700 pilots from 43 nations.

3.2 Subsidiaries and associates

Hong Kong Dragon Airlines Limited ("Dragonair")

Hong Kong Dragon Airlines Limited ("Dragonair") is a regional airline registered and based in Hong Kong. It is a wholly owned subsidiary of Cathay Pacific (100%). The Dragonair's headquartered is in Hong Kong with its corporate headquarters, Dragonair House, and main hub at Hong Kong International Airport. Dragonair is an affiliate member of the Oneworld airline alliance. What's more, the airline has 4 code shares on routes which are mainly served by partner airlines (Air China Limited, China Southern Airlines Company Limited, Malaysia Airlines and Royal Brunei Airlines). Now, the airline has an all Airbus fleet of 39 aircraft, operating a fleet of 18 A330-300s, six A321s and 15 A320s providing quality passenger and cargo services. It services to 45 destinations in Mainland China and other Asia-pacific region. The airline was established on 24 May 1985 by Chao Kuang Piu, who is the airline's present honorary chairman. Dragonair operates about 400 flights a week to the Mainland, offering quality services to passengers around the region. The airline is committed to continuous improving in service to provide its passengers with an even more pleasurable and enjoyable flying experience. Dragonair aims to ensure that its passengers' in-flight experience is as enjoyable and as comfortable as possible.

Air China Limited ("Air China")

Cathay Pacific owns 19.28% of the air china limited, which is the only airline carry the national flag in china. The Air China is one of the major airlines of the People's Republic of China, with its headquarters in Beijing. The air china is found in 1988, on 15 December 2004, Air China was successfully listed on the Hong

Kong and London Stock Exchanges, also listed its shares on the Shanghai Stock Exchange on 18 August 2006. It is a member of Star Alliance, Association of Asia Pacific Airline, and the International Air Transport association. Now there are 272 aircrafts in services and 252 airplanes in order. It has 322 air routes (including 56 domestic routes and 266 overseas routes) and more than 2,472 scheduled flights weekly. The air china is to provide an outstanding service to the passenger, cargo and other airline-related services in Mainland China. Air China's flight operations are based out of Beijing Capital International Airport and are the world's 10th largest airline by fleet size, and the main competitor are the China Southern Airlines and China Eastern Airlines. Air China keeps on the spirit of "safety first and customers highest", concentrates on satisfying the customers and making them feel " relieved, satisfactory, comfortable and moved" and creating a bran-new situation of top ground handling and air service of Air China.

AHK Air Hong Kong Limited ("Air Hong Kong")

Cathay Pacific is also the majority shareholder in AHK, an all-cargo carrier offering scheduled services in Asia. Founded in 1986, AHK is based in Hong Kong, with its main hub at Hong Kong International Airport. The airline operates an express freight network to 12 destinations in nine countries, including China, Japan, Malaysia, Philippines, Taiwan, Singapore, South Korea and Thailand. In November 2007, Air Hong Kong received an Award for Operational Excellence by the airplane manufacturer Airbus for achieving an overall best performance on airplane utilization, operational reliability and average delay time.

Cathy Holidays Limited

Cathay Holidays Limited is a wholly-owned subsidiary of Cathay Pacific Airways, sharing their mission to provide "Service Straight from the Heart". The Cathy holidays limited offer a full range of exciting leisure holiday choices to more than 60 destinations in China, Asia-pacific and beyond. Combining the resources of Cathay Pacific Holidays and Dragonair Holidays, the Cathay holidays limited develops day by day. It offers services about full-service packages, bookings for the accommodations, and full board tour.

Cathay Pacific Services Limited

Cathay Pacific Services Limited ('CPSL') is a wholly-owned subsidiary of Cathay Pacific Airways Limited. COSL was established in January 2008 and was awarded a 20-year franchise by the Airport Authority Hong Kong, in March 2008, to design, build and operate a new cargo terminal at the Hong Kong International Airport - Cathay Pacific Cargo Terminal ('the Terminal'). As a long-term strategic investment, this new cargo terminal provides a full span of air cargo handling services and products, enabling our customers to lead and compete in the market, and catering for various needs of shippers and freight forwarders.

Cathay Pacific Catering Services (HK) Limited

Cathay Pacific Catering Services (H.K.) Ltd. (CPCS) is one of the largest flight kitchens in the world. The company is a 100% subsidiary of Cathay Pacific Airways. In addition to preparing authentic, delicious dishes, CPCS provides the logistics services in delivering food and beverages and other commissary items onto aircraft. CPCS provides flight catering services to 39 international airlines in Hong Kong. It produced 25.0 million meals and handled 63,000 flights in 2012. In another word, CPCS had a 63% share of the flight catering market in Hong Kong in 2012.

Vogue Laundry Services Limited

A wholly owned subsidiary company of Cathay Pacific Airways and a member of the Swire Group, it is one of the major commercial laundry companies in Hong Kong to service airlines, hotels, club houses and institutions. The Company's network of valet shops provides professional dry cleaning and laundry services to the retail sector.

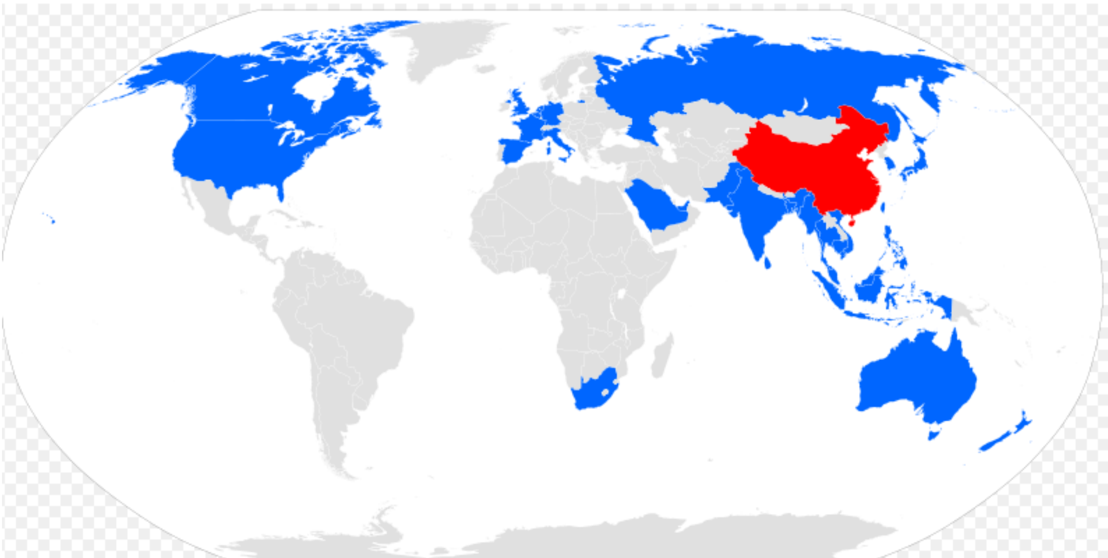
Hong Kong Airport Services Limited (HAS)

HAS, a wholly owned subsidiary, provides ramp and passenger handling services in Hong Kong. It provides ground services to 30 airlines, including Cathay Pacific and Dragonair. In 2012, HAS had 52% and 27% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport.

3.3 The main business

As an airplane company, the basic job is the passengers' services, and cargo services. From the income statement, it is obvious that the cargo services income and the passenger services revenue take the majority of the company turnover**.**

Figure 3.1: *Destinations for Cathay Pacific Airways*



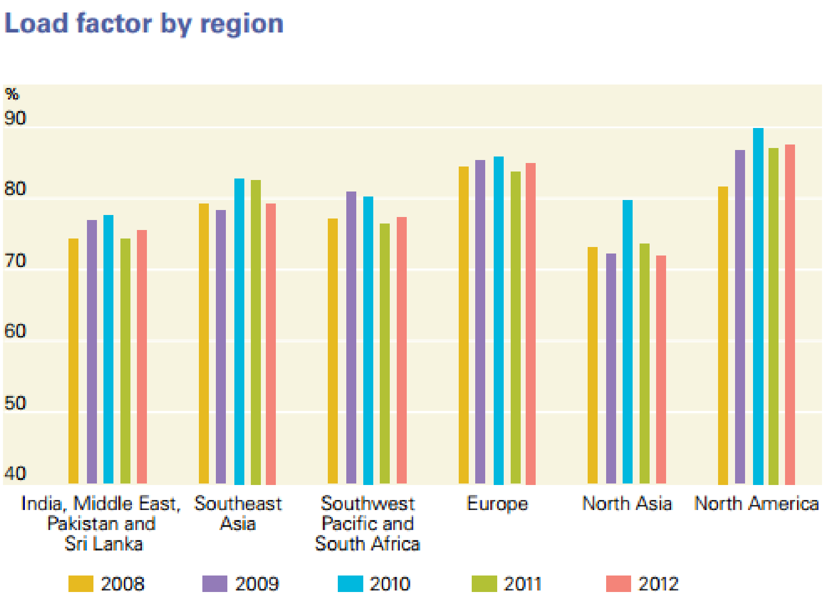
Source is from *Wikipedia*

Passenger's services

The airline's operations include scheduled passenger services to 168 destinations in 42 countries worldwide over six regions (figure 3.1)**.** In 2012, Revenue from Cathay Pacific and Dragonair's passenger services grew by 3.5% to HK$70,133million in 2012. The two airlines carried a total of 29.0 million passengers during the year. Hong Kong and Pearl River Delta are the home market for the Cathay Pacific .due to the strongly demand for travel to and from India, the passengers are increasing in India, middle East, Pakistan and Sri Lanka.in 2012 Cathay Pacific increased the airlines to southeast Asia, because the relative strength of the economies in southeast Asian countries was reflected in robust passenger demand. The Australia routes benefits from in passengers from North Asia connecting to flights to Australia in Hong Kong. There are some airlines fly direct to South Africa from mainland china and japan. However, the routes to continental Europe were generally weak. In North America, the economy class demand was strong on all United States routes.as for the north Asia, there are many routes to Taiwan, mainland china and Japan. The figures 3.2 introduce the load factors by region, and we can see that the percentage in north America and Europe were higher than other regions during 2008 to 2012.

Cathay Pacific operates four-class configurations on most of its Boeing 747-400 and Boeing 777-300ER fleet, and two-class configurations on all other aircraft. The four travel classes are first class, business class, premium economy class, and economy class. The first class, the traveler can have the right amount of personal attention, interaction and privacy, whenever they want. The first-class seats can be converted into fully lie-flat beds measuring 91 cm × 210 cm. The seats include a massage function, a personal closet, an ottoman for stowage or guest seating, a 17" personal television with noise-cancelling headset and Audio and Video on Demand (AVOD), offering passengers a choice of over 100 movies, over 500 TV shows, 888 music CDs, 22 radio channels and over 70 games – and with 10 languages represented. As for the business class seat, the new business seat features up to 28cm of travel. The new, fully flat bed is just over 2 meters long. It also provides personal storage space, 15.4 inch touch-screen personal TV with Audio and Video on demand. Cathay Pacific is pleased to have been voted World's Best Business Class in the Skytrax 2012 survey of over 18 million passengers worldwide.(Skytrax is the world's largest airline passenger satisfaction survey, and the leading global benchmark of airline excellence.) The premium economy class is a total enhancement of economy class experience. The baggage increased allowance: from 20kg to 25kg (weight system) or two pieces of baggage from 23 kg to 25kg each (piece system). The premium economy class cabin is a cozy haven from 26 to 34 seats. As for the economy class, they have a six-inch recline (two inches over the current long-haul economy seat). These seats are 44 cm in width and have 81 cm of pitch. The seats equip a 9 in PTV providing AVOD, AC power, a coat hook and a literature pocket.

Figure 3.2: Load Factor by Region



Source from the Cathay Pacific annual report 2012

Cargo services

Cathay Pacific Cargo operates a fleet of over 20 freighters (Boeing 747-400BCF, Boeing 747-400ERF, and Boeing 747-400F Boeing 747-8F) to more than 40 destinations around the world, in addition to utilizing the cargo space on its passenger aircraft. The cargo subsidiary was established in 1981 with a twice-a-week Hong Kong–Frankfurt–London service operated jointly with Lufthansa. The cargo division ranked fifth in the freight category of the 2008 The World's Top 25 Airlines by Air Transport World. Cathay Pacific Cargo handles most of the airlines' passenger cargo. Together with its cargo routes, it serves more than 80 destinations and is able to operate to destinations that are not in the Cathay Pacific passenger network. In 2010, Cathay Pacific became the world's largest international cargo airline, along with main hub Hong Kong International Airport as the world's busiest airport in terms of cargo traffic.

3.4 The Alliance and Partnership

Oneworld™

Cathay Pacific is a member of the Oneworld™ global airline alliance. Full airline members include: airberlin, American Airlines, British Airways, Cathay Pacific Airways, Finnair, Iberia, Japan Airlines, LAN Airlines, Qantas, Royal Jordanian, S7 Airlines, and Malaysia Airlines became a member of Oneworld in February 2013 (table 3.1). Dragonair, Cathay Pacific's sister airline, is an affiliate Oneworld member. Joining an international alliance such as Oneworld™ provides an extensive range of benefits to Cathay Pacific and our passengers. It has been able to extend their global network so that Cathay Pacific customers can enjoy seamless travel to more than 750 destinations.

Codeshares

Entering into codeshare agreements allows Cathay Pacific to offer you better connections around the world and greater flexibility in planning passenger's trip. Cathay Pacific currently has codeshare agreements with a number of other international airlines, and with Societe Nationale des Chemins de fer Francais (SNFC) on selected rail services from Paris. Cathay Pacific currently has codeshare agreements with a number of other international airlines. The codeshare company are Air Pacific, Alaska Airlines, American Airlines, British airways, Comair, Dragonair, Finnair, Japan Airline, LAN Airlines, Malaysia airlines, Mexicana de Aviación, Philippine Airlines, Qantas, SNCF, Vietnam Airlines, WestJet.

3.5 Some main competitions

Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 172 destinations in 39 countries and territories. So the competitions are from china and other international airlines. In china, the main competitions are the China Southern Air Holding Company and China Eastern Airlines.

China Southern Air Holding Company

China Southern Air Holding Company was founded on October 11.2002. It is a large state-owned air transport group merging China Southern Airlines, Xinjiang Airlines and China Northern Airlines. China Southern Airlines operates the largest fleet, most developed route network and largest passenger capacity of any airline in The People's Republic of China. China Southern Air Holding Company concentrates on air transport service, and is busied in air passengers and cargo agencies, also specializes in import and export trade, financial planning and wealth management, construction and development, media advertising and other industries. Besides, China Southern Air Holding Company has more than 70,000 employees and total operating assets of over RMB 150billion. What's more, China Southern Airlines went public on both New York and Hong Kong Stock Exchanges in 1997 and listed in China's mainland in 2003. China Southern has 15 branches including: Xinjiang, Northern, Beijing, Shenzhen, Heilongjiang, Jilin, Dalian, Henan, Hubei, Hunan, Guangxi, Hainan, Zhuhai Helicopter, Xi'an and Taiwan; and 5 holding subsidiaries: Xiamen Airlines, Shantou Airlines, Guizhou Airlines, Zhuhai Airlines ,and Chongqing Airlines. China Southern has bases in Shanghai and Nanyang; 22 domestic sales offices located in major Chinese cities including Shanghai, Beijing and Shenzhen and 59 worldwide sales offices located in New York City, Los Angeles, Paris, Tokyo, Amsterdam, Dubai, Sydney, Vancouver, London and Seoul. China Southern has more than 1,930 daily flights to 193destinations in 35 countries and regions across the world. China Southern Airlines transported more than 86 million passengers in

2012, ranking the carrier first in Asia and the third among the 240 Airlines in IATA , topping all Chinese airlines for 34 years .Currently, China Southern operates 500 passenger and cargo transport aircraft, including Boeing 777, 747, 757 & 737 and Airbus A380, 330, 321, 320, 319. China Southern Airlines Co.Ltd, a proud member of SkyTeam, is directly affiliated with China Southern Air Holding Company, specializing in air transportation services.

China Eastern Air Holding Company

With headquartered in Shanghai, China Eastern Air Holding Company is one of the three largest major air transport companies in China, which specializes in public air transportation, general aviation and air transport operations and the production and sale of related products, aviation equipment and equipment maintenance, passenger air transport, freight services and ground handling, aircraft leasing, and aviation training and consulting services. In 1997, China Eastern became the first Chinese airline listed simultaneously in New York, Hong Kong and Shanghai stock market. As one of the three major airlines in mainland China, it operates 50 overseas offices and 10 domestic branches. China Eastern Airlines Corporation Limited is at the core of China Eastern Air Holding Company, whose predecessor is China Eastern Airlines, which was founded in June 1988. Listed on the Hong Kong, New York and Shanghai stock exchanges in 1997.Moreover, it holds controlling shares of over 24 subsidiaries including Shanghai Airlines, China Eastern Yunnan Airlines, China Cargo Airlines Co., Ltd and China United Airlines. China Eastern has established an air transportation network linking all corners of the world with Shanghai, the company’s major hub, and Xi’an and Kunming, its regional hubs. As an official member of SkyTeam, China Eastern has extended its flight network from Shanghai to 1000 cities in 187 countries via close cooperation with SkyTeam member airlines. In 2011, China Eastern Air Holding Company possessed assets worth a total of about RMB 90.57 billion Yuan, in 2012 China Eastern operated 377 passenger and cargo transport aircraft, including Self-owned and under finance lease and Under operating lease, provided air service to

173 destinations, and had over 59872 employees. China Southern Airlines transported more than 68.72 million passengers in 2012.

4. Financial analysis of Cathay Pacific Company

This chapter provides a detailed statement and analysis of the Cathay Pacific's financial performance and condition during the year 2007 to 2011.

4.1 Horizontal analysis

The aim of this part is to use the absolutely change and relative change to analysis the trends of preference and condition in limited years

4.1.1 Horizontal analysis of balance statement

Table4.1 Balance Sheet for Assets (Absolute Change)

	BALANCE SHEET (ABSOLUTE CHANGE)			
	2008/2007	2009/2008	2010/2009	2011/2010
ASSETS				
NON-CURRENT ASSETS				
Fixed assets	3651	-544	617	7386
Intangible assets	0	68	154	597
Investments in associates	-315	-539	3884	4968
Other long-term receivables and investment	-170	358	-948	1424
	3166	-657	3707	14375
CURRENT ASSETS				
Stock	78	-13	74	134
Trade,other receivables and other assets	830	-2486	3272	-828
Liquid funds	-6561	1434	7676	-4601
	-5653	-1065	11022	-5295
TOTAL ASSETS	-2487	-1722	14729	9080

There are non-current assets and currents assets in the assets part. As for the total assets, it can be found that the assets kept decrease in 2008 and 2009, while, after the financial crisis, the total assets went up. As the non-current assets, a big grow was witnessed from 2007 to 2011 from 84185million to 105776million, especially in 2011, when every part of the non-current assets sharply increased. There are fixed assets, intangible assets, investment in associates and other long term receivable, and investment. As for the fixed assets, the related factors, aircraft and related equipment, other equipment and building, slowly soared during the selected years. The period from 2007 to 2012 witnessed a fluctuant rise of the intangible assets and other long-term receivables and investment. As for the investment in associate, there was a big rise from 2009 to 2011(from 9042million to 17894million), thanks to the share of the net assets and the goodwill. That showed the Cathay Pacific had more power in the current assets, good relationship with the employee, consumers and government. Furthermore, the Cathay Pacific could occupy a proportion in this market. As for the current assets, there was a fall at the first years from 32348million to 25630million, followed by a dramatically grow until it hit the peak 36652million in 2011, before a sharply fall to 31357million. During selected year, financial crisis make many differences, especially the liquid funds. The liquid funds basically was deposit, included the short- term deposits and bank balances, short-term deposits maturing beyond 3monthes, funds with investment managers (debt security)and other liquid investment. From the data, the amount of the total assets increased almost, which means that the scale or the comprehensive capability got a higher step.

Figure 4.1 Balance Sheet (absolute change)

Figure 4.2 Current Assets

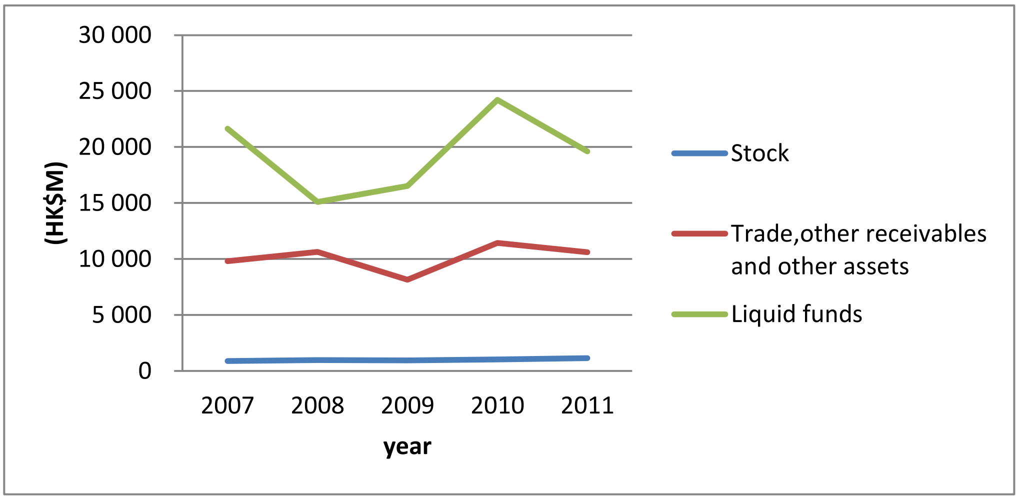


Figure 4.3 Non-current Assets

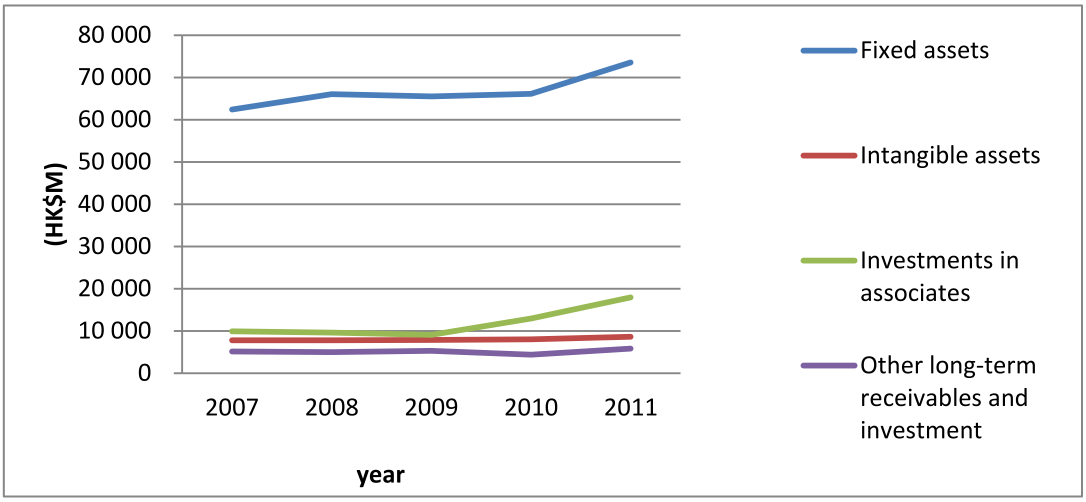


Table 4.2 Balance Sheet for Equity and Liabilities (absolute change)

	BALANCE SHEET (ABSOLUTE CHANGE)			
	2008/2007	2009/2008	2010/2009	2011/2010
EQUITY				
Share capital	-1	0	0	0
Reserves	-12361	5529	12036	1535
Non-controlling interests	-58	27	8	-20
TOTAL EQUITY	-12420	5556	12044	1515
LIABILITIES				
Net long-term liabilities	3535	-1211	-3889	3848
Other long-term payables	3116	-3547	641	912
Deferred taxation	-1790	424	560	982
Net current portion of long-term liabilities	377	3573	876	-142
Trade and other payables	5184	-4757	2808	1691
Unearned transportation revenue	-143	-574	1091	447
Taxation	-346	-1186	598	-173
TOTAL LIABILITIES	9933	-7278	2685	7565

As we know the assets is equal to the sum of the equity and liabilities. As for the total equity, in 2007 the total equity was 49249million. Due to the sharply decreasing of the reserves (retained profits); there was a dip in 2008, the total equity slump to 36829million, which was the lowest point over 5 years. However, according to the table 4.2, opposite situation happened in 2010/2009, which meant that, from then on (2008), an upward trend was witnessed, especially in 2010, the total equity went up to 54429million. Compared with 2008, the retained profit in 2010 was 37061million, about 1. 7 times larger than 2008.

Due to the going up of the assets, the sum of the liabilities and equity grow as well. However, it could be defined the year 2008 is the special one, the liabilities soaring, the equity declining as the same moment. This year witnessed that the value of the share was declined, and the company issued more bonds. Furthermore, the structure was changed a bit.

As for the liabilities, in 2007, the number stood at 68284million. However, there was a dramatically soaring in 2008 to 78217million, followed by a drop to 70939million in 2009. From then on, the amount of the liabilities slowly went up to 81189 million in 2011. Therefore, it is easy to notice, in the table 4.2, the absolutely change met a positive change in 2008/2007, 2010/2009, 2011/2010, while met a negative situation in 2009/2008. In 2008, because of the rise of the fuel price the new buildings, the long-term liabilities, included loans from bank and other obligation under finance leases, the trade and other payables were higher than other years. In another word, the net borrowing in 2008 was 1.7 times much than 2007.

4.1.2Horizontal analysis of income statement

From table 4.3, every change during the selected years can be seen. As for the total turnover, there was sharply increase in normal years, however, in 2008/2009, we can see the data was less than zero, which meant that the avenue suffered from the drop in 2009. It is the lowest point over the period. The fall of this period was related on the rough situation of global economy. During the financial crisis, the global had been seriously disadvantage by the financial crisis. Faced with this situation, the number of production decreased, so did financial activities. Therefore, the cargo services decline 7368million, about 30% (from 24623million to 17255million). Besides, the salary of the workers fell down, so that there were less people prefer spending money on travelling. Thus, the passage services witnessed a dramatically drop from 58046million to 45920million (21%).In 2008. Because the in the first half of the 2008, the economy still kept the strong power to make a positive situation. Although on the next half year of 2008, the negative situation could be seen, when the business performance declined, the revenue still rose. However, after the financial crisis, the economy gradually recovered from the tough days. The operational revenues increase by 22546million in 2010, and kept this trend to 2011, with 98406 million, which meant that the company almost went through the financial crisis.

In term of the operating expenses, the cost normally soared with the revenue, except the year 2009 and 2011. Due to the higher price of the fuel, the operational cost was the highest during five years, about 94,039 millions. Same situation happened in 2011 as well. Moreover the Landing, parking and route expenses kept slightly increased from 2007, so did the Aircraft (and others) depreciation and operating leases. In 2008 and 2009, suffered by the expensive fuel and the less flight activities, the company met a loss. However, in the following years, Cathay Pacific gradually recovered and kept the positive attitude to make profit.

As for the financial income, we can see that the financial income kept high level in 2007 and 2008, followed by a sharply decline by 828million in 2009, when it hit the lowest point during five years. From then on, there was a slightly increase. In addition, in 2009 and 2010, there was an extra profit from disposal of investments. There was a gain on deemed disposal of an associate in 2010 and the share of the profit, except 2009, when there was a drop. Thanks to the loss of the company, there was an extra income from the tax in 2009

As for the financial cost, according to the table 4.3, the financial cost declined in 2007 and 2008. Then the cost slowly soared. Besides, Cathay Pacific is currently the subject of antitrust investigations by competition authorities in various jurisdictions. There was a fine by the Settlement of the United States Department of Justice cargo investigations in 2008 can be found. This case is about Cathay Pacific announced that it had entered into a plea agreement with the United States Department of Justice under which it has pleaded guilty to a violation of the United States Sherman Act in June 2008. A provision of HK$468 million as the fine was made in the Group’s interim results and such fine was paid in August. What’s more, Cathay Pacific received and responded to a Statement of Objections issued by the European Commission, and received and is evaluating a Statement of Claim issued by the New Zealand Commerce Commission. On the other hand, Cathay Pacific continues to cooperate with the competition authorities by which it is being investigated and, where applicable, to defend itself vigorously. Although that guilt and the fine had a negative impact on the company image, the positive attitudes and cooperation with the authorities increased the goodwill of the company. And in 2008 there was an extra cost of losses of associates, but it just made a little differences.

Table 4.3 Income Statement Absolute Change and Relative Change

	INCOME STATEMENT ABSOLUTE CHANGE				INCOME STATEMENT RELATIVE CHAN			
	2008/2007	2009/2008	2010/2009	2011/2010	2008/2007	2009/2008	2010/2009	2011/2010
TURNOVER								
passenger services	8526	-12126	13434	8424	17%	-21%	29%	14%
cargo services	2840	-7368	8646	79	13%	-30%	50%	0%
catering,recoveries and other services	-146	-106	466	379	-4%	-3%	12%	9%
TOTAL TURNOVER	11220	-19600	22546	8882	15%	-23%	34%	10%
EXPENSES								
Staff	286	190	1232	922	2%	2%	10%	7%
Inflight service and passenger expenses	433	-421	393	486	15%	-13%	13%	15%
Landing,parking and route expenses	1089	-581	843	1804	11%	-5%	8%	16%
Fuel	22693	-29968	10927	10601	92%	-63%	63%	37%
Aircraft	813	-1076	505	1396	12%	-14%	8%	20%
Aircraft depreciation and operating leases	842	767	310	-91	13%	11%	4%	-1%
Other depreciation and operating leases	62	43	4	98	6%	4%	0%	9%
Commissions	-9	-280	165	55	-1%	-33%	29%	7%
Others	211	-214	1593	-836	7%	-7%	54%	-18%
OPERATING EXPENSES	26420	-31540	15972	14435	39%	-34%	26%	18%
OPERATING PROFIT/LOSS BEFORE NON-RECURRING ITEMS	-278	-2982	6574	-5553	-4%	-40%	147%	-50%
Profit on disposal of investments	0	1254	911	-2165	0%	0%	73%	-100%
Gain on deemed disposal of an associate	0	0	868	-868	0%	0%	0%	-100%
Settlement of the United States Department of Justice cargo investigation	468	-468	0	0	0%	-100%	0%	0%
OPERATING PROFIT/LOSS	-15668	13662	8353	-8586	-202%	-172%	146%	-61%
Fianance charges -	-23	-993	220	71	-1%	-41%	15%	4%
Finance income	-248	-828	89	305	-15%	-58%	15%	45%
share of profits/losses of associates -	-1787	991	2326	-870	-169%	-136%	891%	-34%
PROFIT/LOSS BEFORE TAX	-17680	14818	10548	-9222	-221%	-153%	205%	-59%
Taxation -	2136	-1620	-1179	659	-267%	-121%	417%	-45%
PROFIT/(LOSS) FOR THE YEAR	-15544	13198	9369	-8563	-216%	-158%	193%	-60%

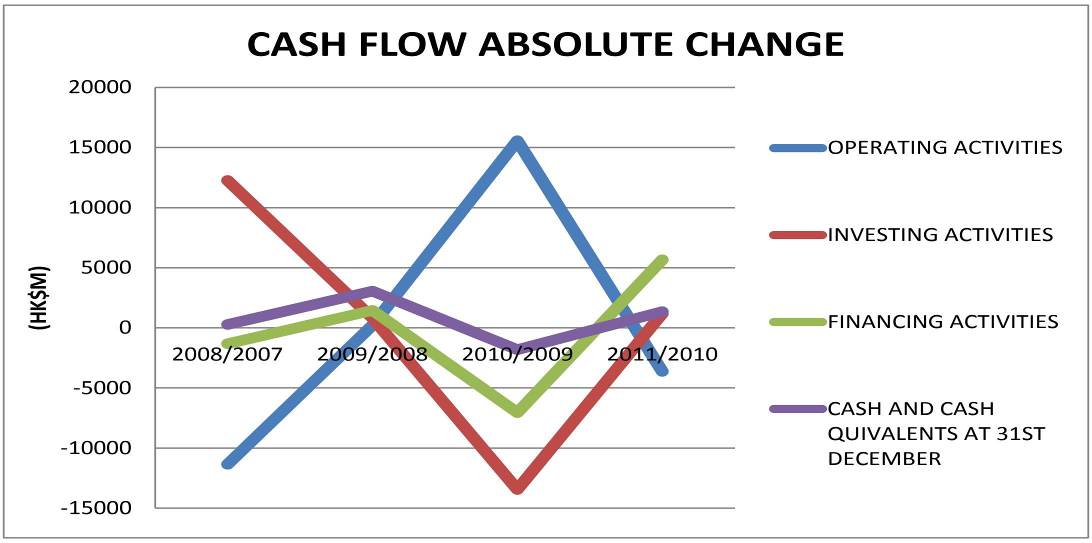
4.1.3Horizontal analysis of cash flow

According to the Table 4.4, it showed that the number of the cash inflow from operating activities stood at HK 13168 million in 2007. However, the number plunge into HK 1816 million in 2008, and stayed in the dip in 2009 as well, followed by a remarkable rise to HK 17599million in 2010, thanks to the positive business performance, almost 765% increasing on the basis of 2009, when it reached the peak ,after a slightly fall in 2011.

Table 4.4 Cash Flow Form

					(HK$M)
	2007	2008	2009	2010	2011
NET CASH INFLOW FROM OPERATING ACTIVITIES	13,168	1,816	2,035	17,599	13,980
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	-14,313	-2,044	-1,223	-14,663	-13,478
NET CASH INFLOW FROM FINANCING ACTIVITIES	2,009	689	2,140	-4,914	758

Figure 4.4 Cash Flow Absolute Change



According to the Table 4.4, it showed that the number of the cash inflow from operating activities stood at HK 13168million in 2007. However, the number plunge into HK 1816million in 2008, and stayed in the dip in 2009 as well, followed by a remarkable rise to HK 17599million in 2010, thanks to the positive business performance, almost 765% increasing on the basis of 2009, when it reached the peak ,after a slightly fall in 2011.

There was a relatively big fluctuation in cash which used in investing activities from fiscal 2007 to 2011. The outflow went up from HK 14313 million to 2044 million during fiscal 2007 to 2008, almost 86% on the basis of 2007, followed by a slightly increase to HK 1223 million in 2009, From fiscal 2008 to 2009, due to the cold environment of the financial market, the Company held a relatively conservative attitude to investing, even stopped or postpone some investment programs but still kept some investing outflow. In fiscal 2010, the Company increased investing capital to HK 14.663billion, about 1099% on the basis of 2009, which revealed a recovery and expansion process against the backdrop of global financial crisis.

With regard to the cash used in financing activities, the amount still saw a remarkable fluctuation during five years. Although there was a drop in 2008, it was return to the same level of fiscal 2007 in 2009, interestingly there was nothing about dividend to shareholders in this years, which is followed a significant outflow about HK 4914 million. The cash was used in the payments for loan and finance lease, about HK 9290 million in 2010. The reason why the number was return to the same level of fiscal 2008 in 2011, about HK 758 million was although the payment for loans and finance lease kept high level, about 8874million, there was new financing about HK 12,187billion to offset the outflow.

4.2 Vertical analyses

The vertical analysis is the most common analysis in the common-size analysis, which is to compare the changes in the proportions of structure in selected years.

4.2.1 Vertical analysis of the balance sheet

The vertical analysis of balance sheet shows each category in assets (equity, liabilities) is represented as a percentage of the total assets (equity, liabilities). The figure 4.5 shows the proportion of the current assets and the non-current assets. On general, the largest proportion was obvious for non-current assets, which was three times more than current assets. That is to say, the long-term assets played a significant role.

In the company, due to the rise of current assets, the percentage of non-current assets was below 70% in 2010, while the normal situations were above 70%. According to the figure 4.7, it is easy to notice the liquid funds, trade other receivables and other assets are the largest proportions. The sum of those two parts can account 99% in the current assets. However, there were some differences in 2008, due to the liquid funds plumped over HK 6000million, the trade, and receivables part slightly increased, when the structure made a little change. From then on, the structure was back to the common situation. The stock part kept stable and just shared a tiny part in current assets during selected years. With regard to the non-current assets, according to the figure 4.6, it can be seen that the fixed assets made slightly decreased over five years, but it still the majority part, 70%. On the other hand, the investments in associates continuously offset the fall of the fixed assets. What's more, the other long-term receivables and investment, intangible assets leveled off over five fiscal years.

Figure 4.5 Assets

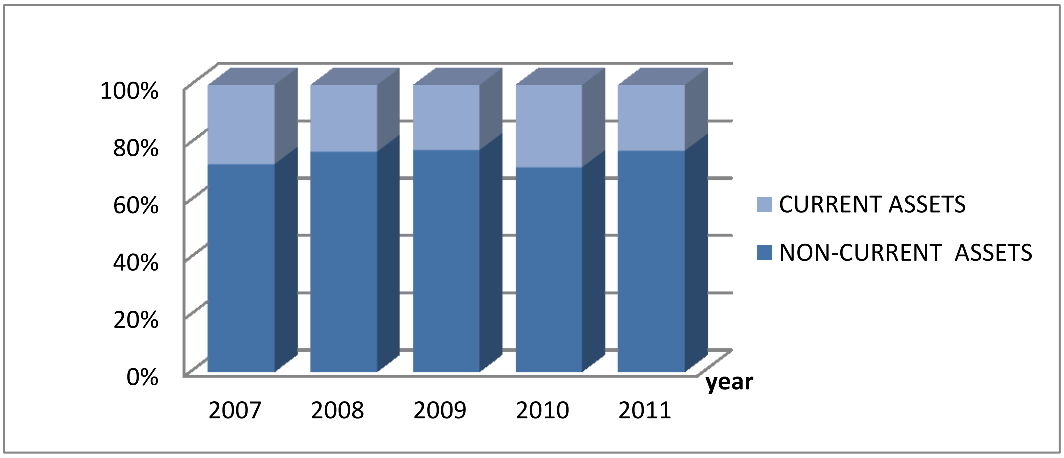


Figure 4.6 Non-current Assets

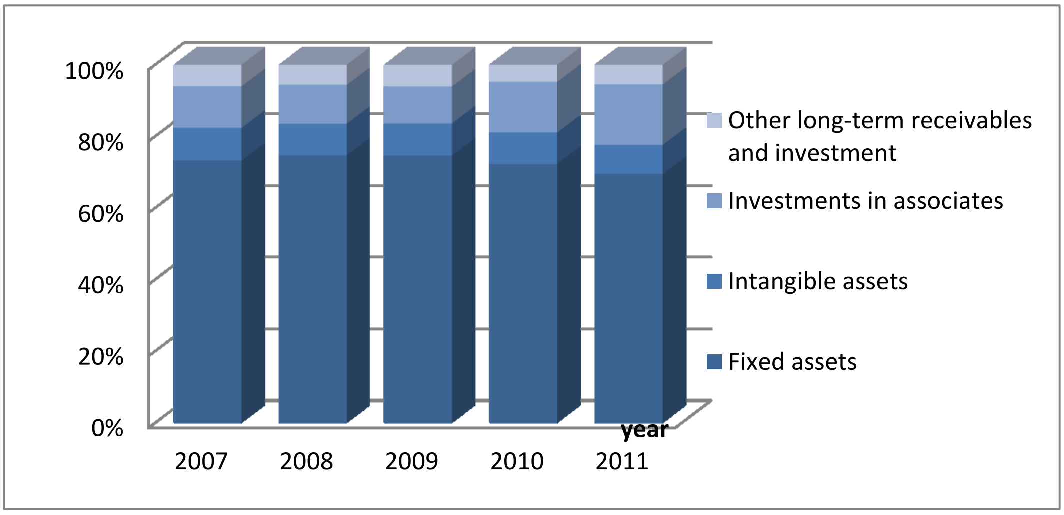


Figure 4.7 Current Assets

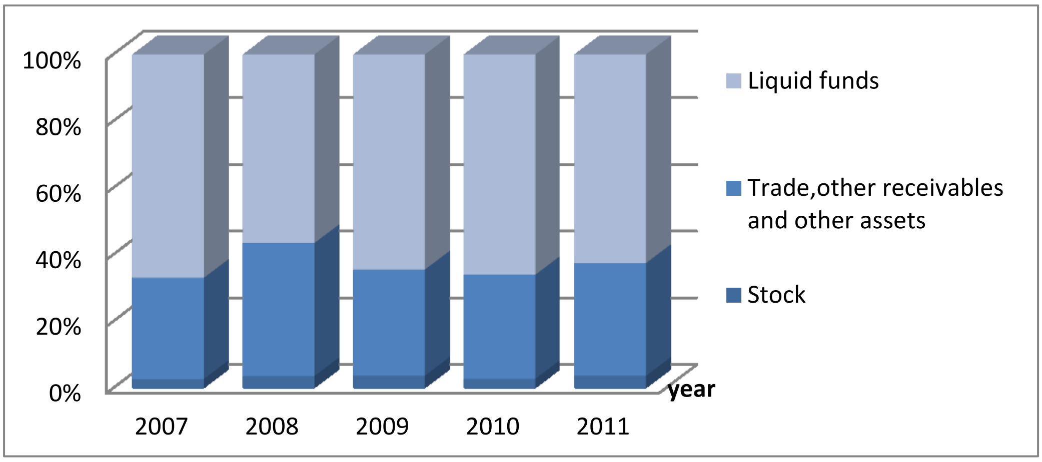


Figure 4.8 Equity+ Liabilities

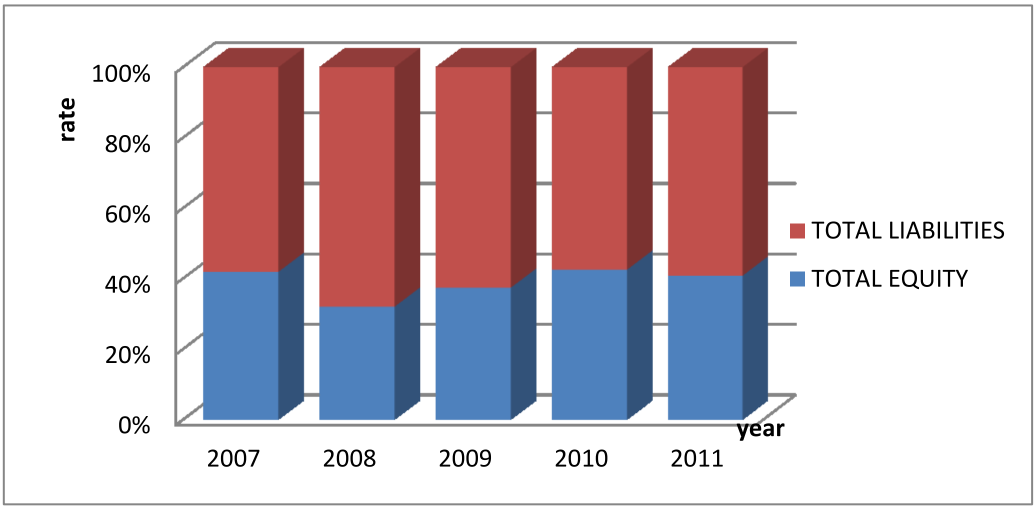


Figure 4.9: Equity.

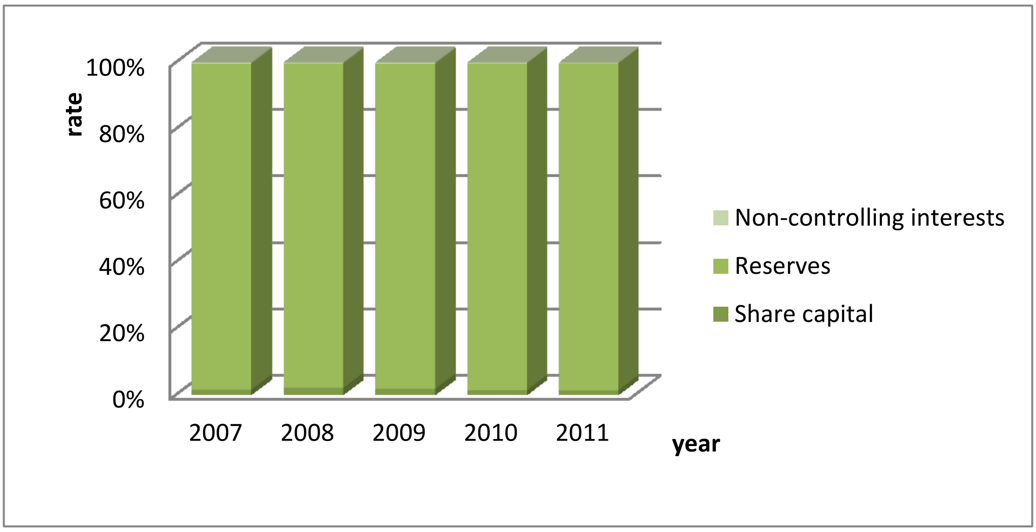
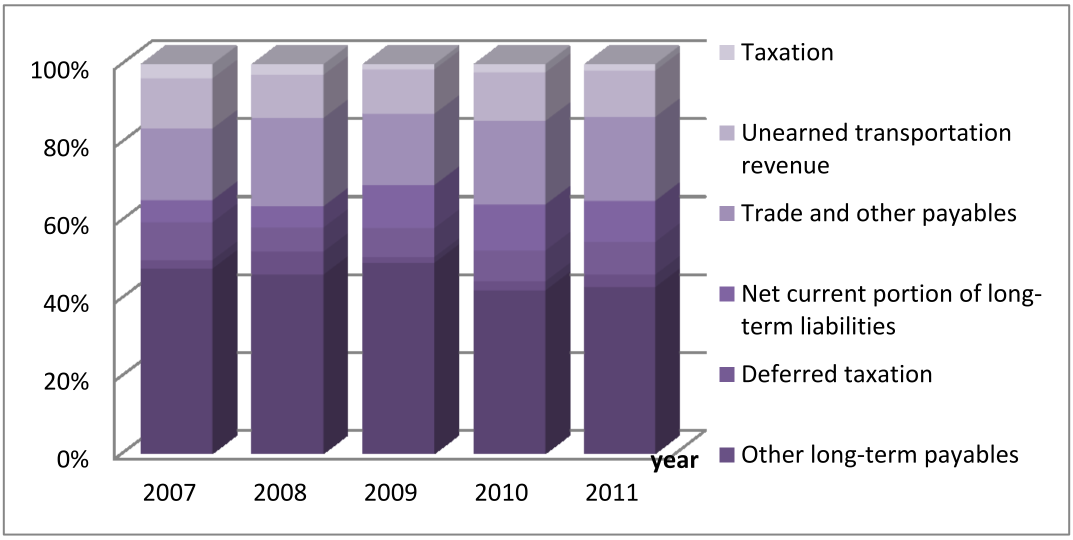


Figure 4.10Lliability



As we know, the sum of the equity and the liabilities is the number of the assets. According to the figure 4.8, the liabilities took key role can be noticed which accounted approximately 60%. The rest part was equity. From the data, in 2008 and 2009, the liability increased about 10%, which meant that, in order to go through the period of economy winter in 2008, Cathay Pacific borrowed more money from the lenders (bank and private). Based on the figure 4.10 the net long-term liabilities, made large impact (more than 40%), followed by the trade and other payables, which was the second largest part. At the same time, the equity declined in 2008, according to the figure 4.9, obviously, the reserves represented a lion share on the shareholders' equity. It made directly influence the amount of shareholders' equity. In another word, reserves occupied more than 99% of the equity.

4.2.2 Vertical analysis of the income statement

In figure 4.11, how the proportions internal changed over the years can be seen. The passenger services accounted for approximately 65% of the operation revenue every year, followed by the cargo services, normally 30%. Except the 2009, the cargo dropped a little, because of the business performance depressed caused by the financial crisis. According to the data, the cargo services and the passengers' services took the majority of the operational cost, which was fact-based and internationally comparable.

Figure 4.11 Operational Income

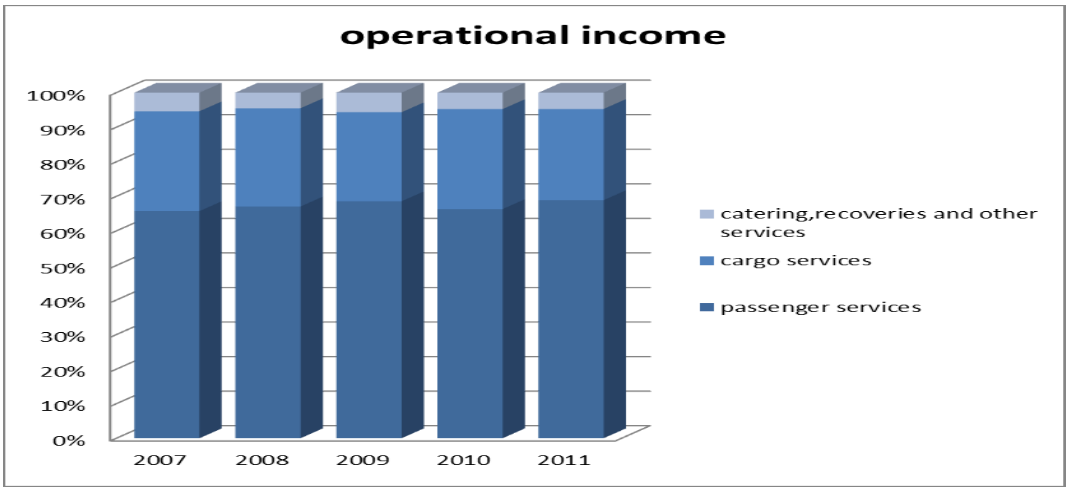
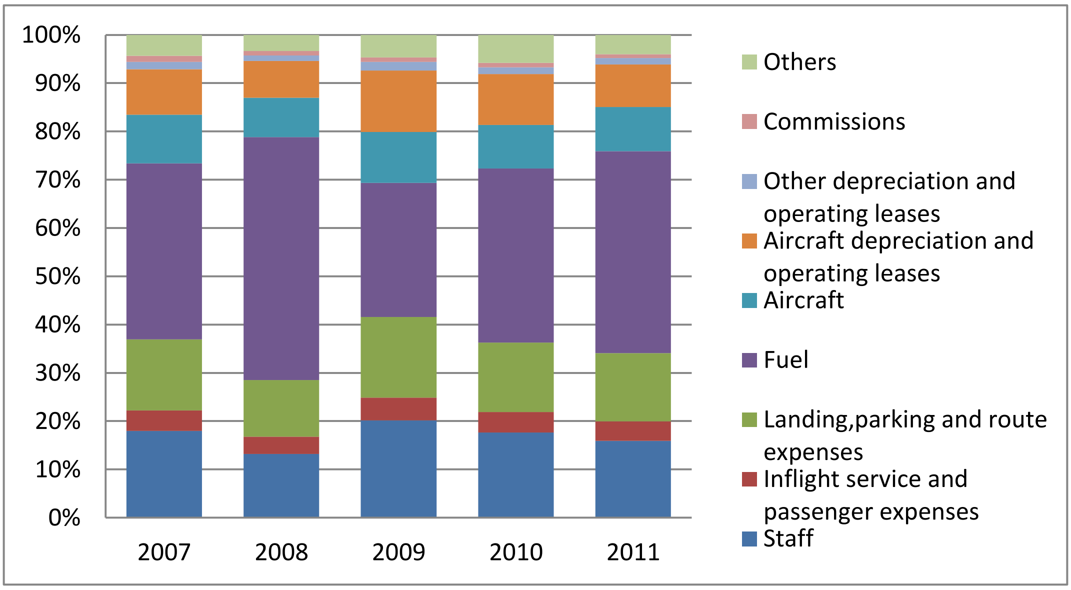


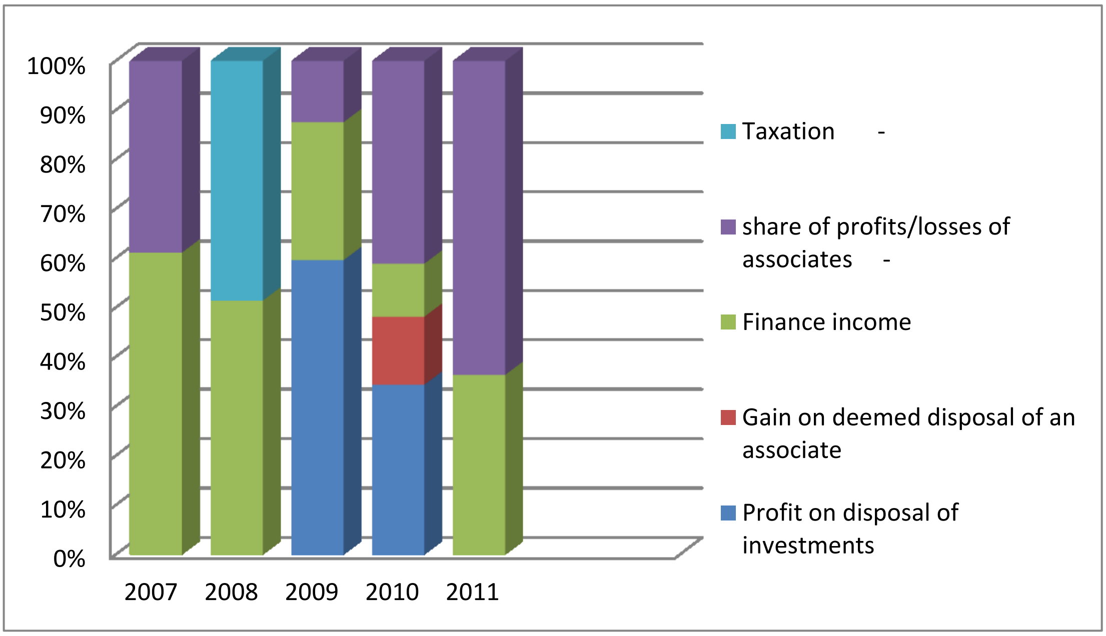
Figure 4.12 Operational Costs



According to the figure 4.12, firstly, compared with other factors, the fuel had a great impact on the operational cost (normally more than 35%). However, as the Fuel costs increased due to a 44.3% increase in the average into-plane fuel price to US$132 per barrel and a 7.0% increase in consumption to HK 38.3 million barrels, the fuel took almost 50% in 2008. Whereas, the fuel only took less than 30% in 2009, because a 44.3% decrease in the average into-plane fuel price to US$73 per barrel and a 7.8% decrease in consumption to HK 35.3 million barrels.

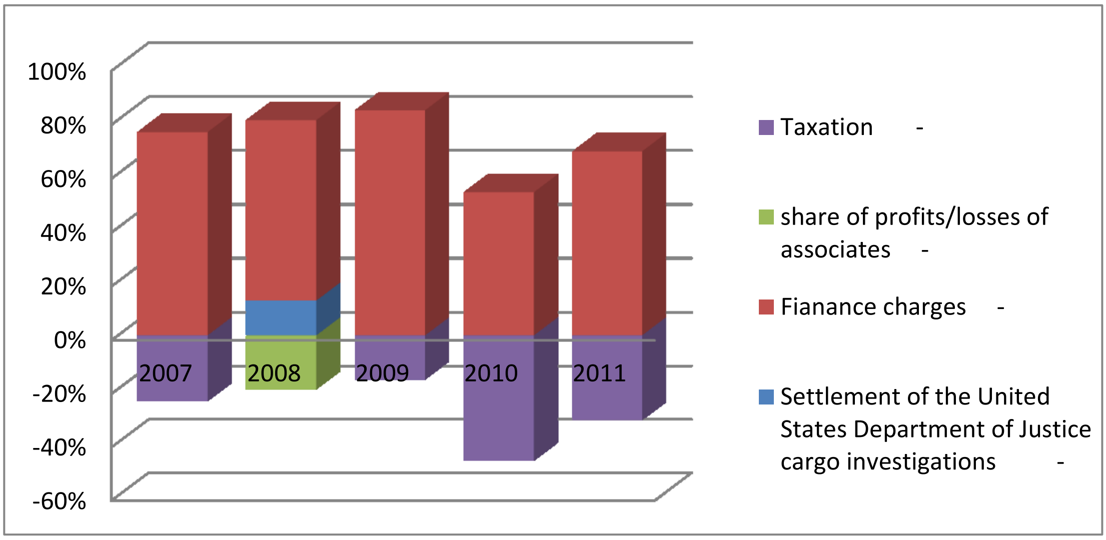
Moreover, the proportion of salary for the staff dropped in 2008. On one hand, due to a rise in the average number of staff partly offset by a lower bonus, the number of salary kept stable. On the other hand, the total cost in this year soared remarkably, though the cost of salary kept stable on the number, the proportion still declined. In 2009, the part of salary increased, due to provision for ex-gratia payment and higher average headcount partly offset by savings from no-pay leave. The landing, park and the routing expenses took more fluctuation between from 12% to 18%. The other factors always kept stable over 5 selected years.

Figure 4.13 Financing Income



As for the financing income (from the figure 4.13), in 2007, the finance income took 60%, and the rest was share of profits. In 2008, the tax charge decreased as a result of the loss this year, and even got a receivable from the government, accounted about 50% in the financial income. In 2009, the profit on disposal of the investments took 57% in the financial income statement, followed by the finance income(less than 30%). The rest was the share of profit. However, from then on, the share of the profit increased sharply in next two years, especially in 2011, when it took up 67% of the financial income. In 2010, there was an extra income, gain on the deemed disposal of associate, took up 10%.

Figure 4.14 Financing Outcome



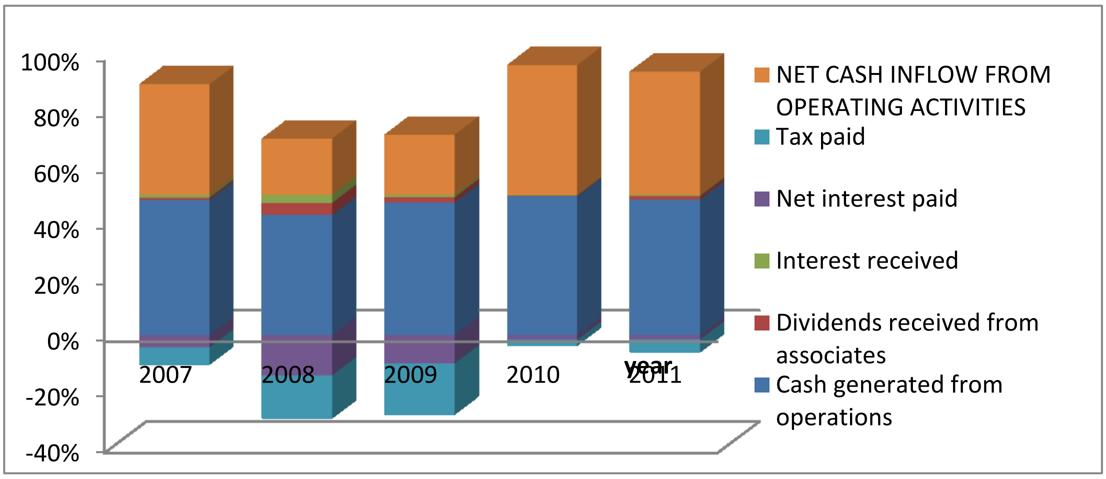
With the regard of the financial outcome (from the figure 4.14), the financial charges always took up the majority. Due to the fine of the settlement, the percentage of financial charges declined in 2008, followed by a rise in 2009, for the decreased as a result of lower interest rates partly offset by lower return on investment funds. Whereas, in 2010, the proportion hit the bottom, just 50%. Although there were some fluctuations of the taxation, especially in 2010, the tax charge increased principally reflecting the higher profit. Besides in 2008 there was an extra outcome, share of losses of associates, the reduction was mainly a result of a share of loss from Air China.

4.2.3 Vertical analysis of the cash flow

The vertical analysis of the cash flow shows the differences among each factor in the same years.

The figure 4.15 shows the operating cash flow. The parts upon the horizontal axis where it was the cash inflow (figure 4.16) and below horizontal axis were cash outflow (figure 4.17). Firstly, from the figure 4.15, the operating cash inflows were the majority in the cash flow. In the operating cash flow, the cash generated from operations had a lion share over the period 2007 to 2011.Whereas, in 2008, due to financial crisis and the poor of the business performance, the cash generated from operations declined a lot. Even that the interest received and the dividend from the associates still kept a tiny proportion.

Figure 4.15 Operating Cash Flow



On the other hand, the operating cash outflow is the sum of the tax paid and the net interest paid. According to the figure 4.15, the cash outflow increased because of the financial crisis. After the tough time, the performance made a recovery.

Figure 4.16 Operating Cash Inflow

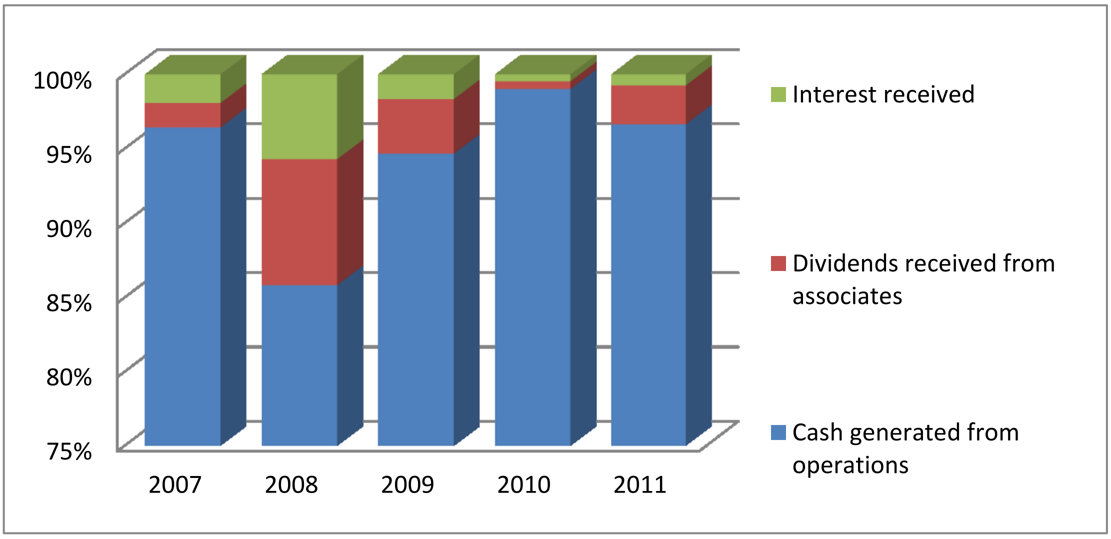


Figure 4.17 Operating Cash Outflow

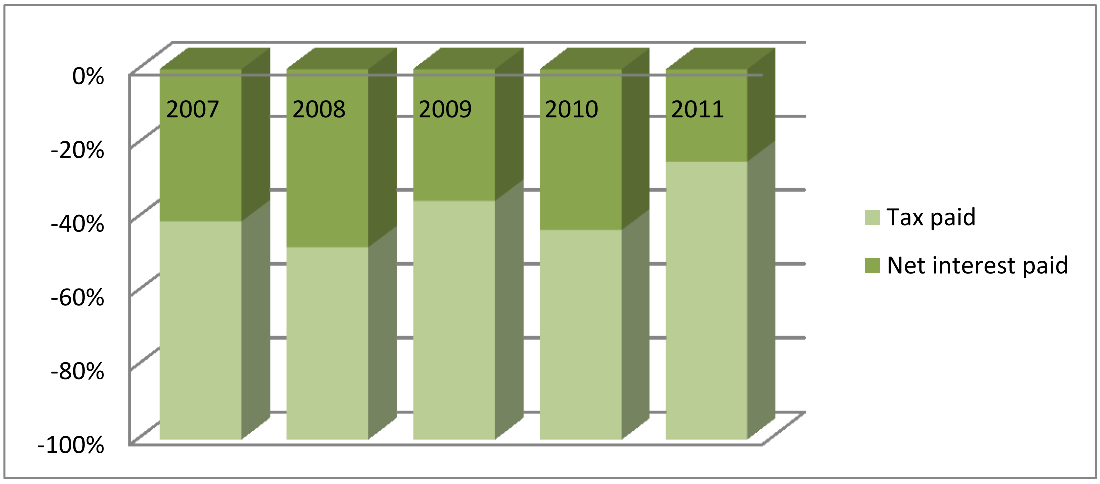
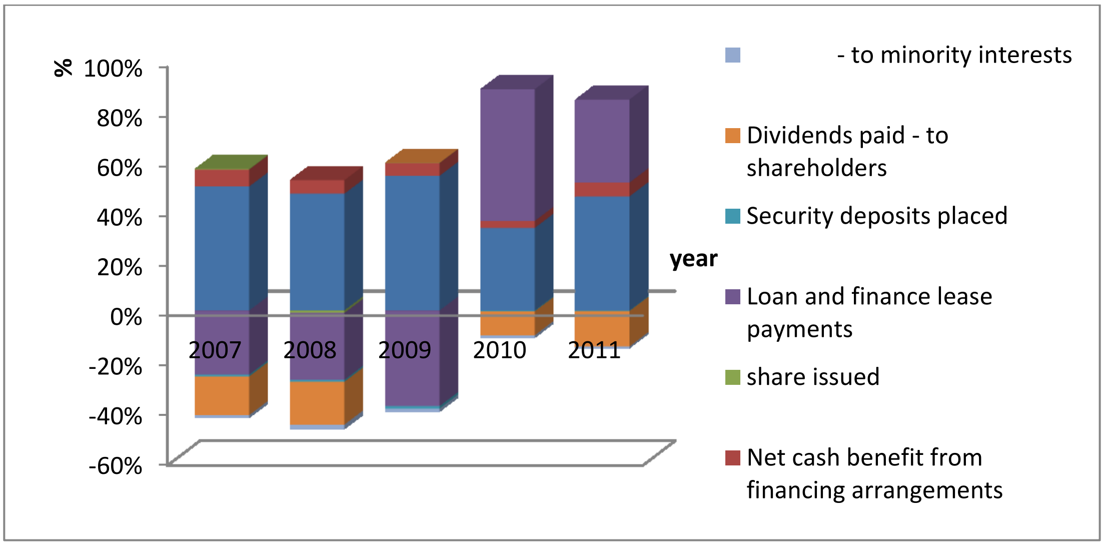


Figure 4.18 Financing Cash Flow



The figure 4.18 shows the financing cash flow. The parts upon the horizontal axis where it was the cash inflow (figure 4.19) and below horizontal axis was cash outflow (figure 4.20). The period 2007 to 2010 witnessed a rise of the new financing. As for the structure, the net cash benefit from the financing arrangement and the new financing are mutually exclusive. Thus, the period 2007 to 2010 saw the drop of the net cash benefit from the financing arrangement. In 2011, the net cash benefit from the financing arrangement remarkably soar, however, the new financing still took up the majority part. Besides, the company issued new share in 2007 and 2009 to collect money.

Figure 4.19 Financing Cash Inflow

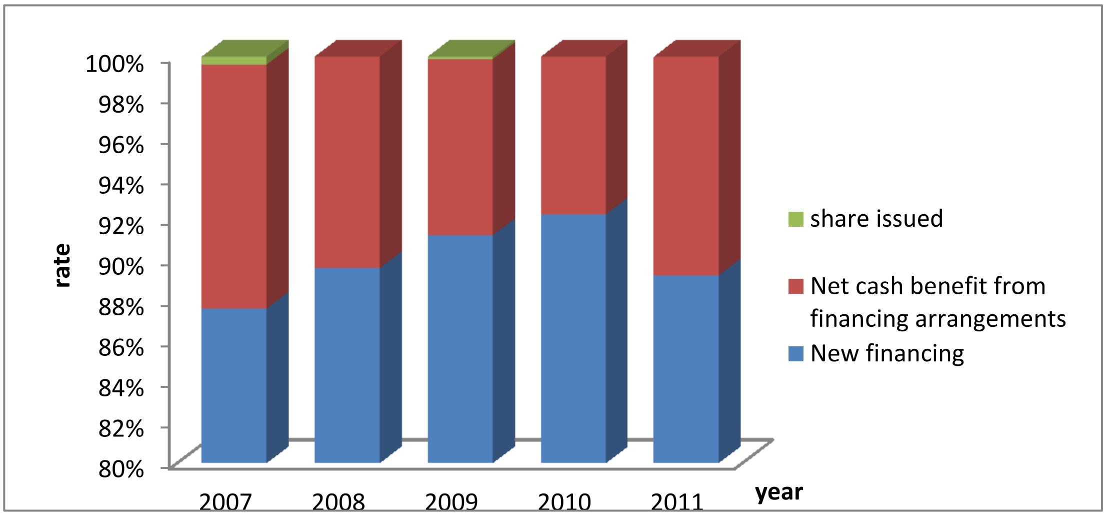
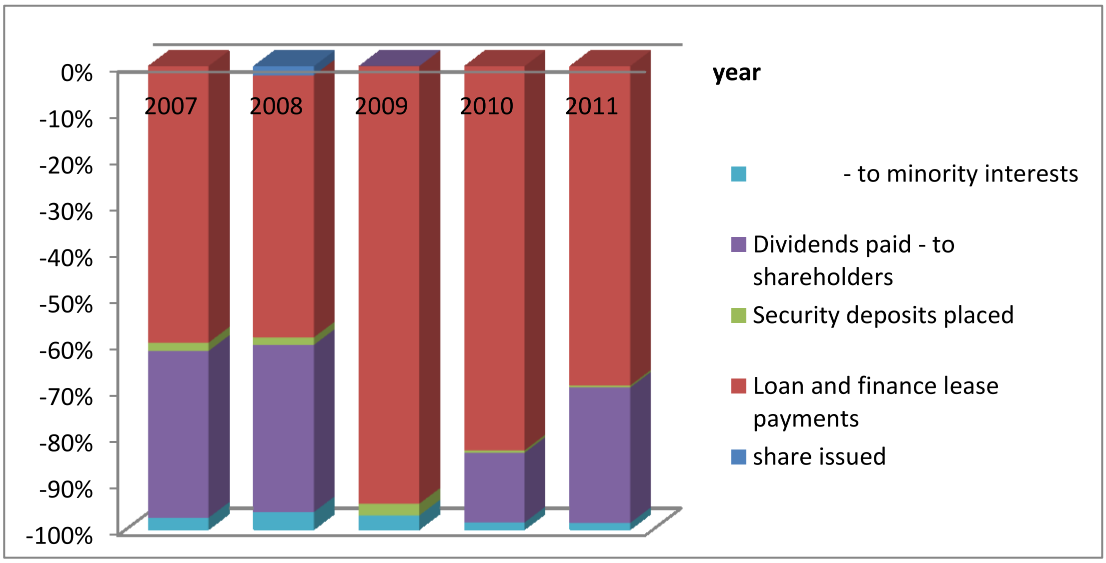
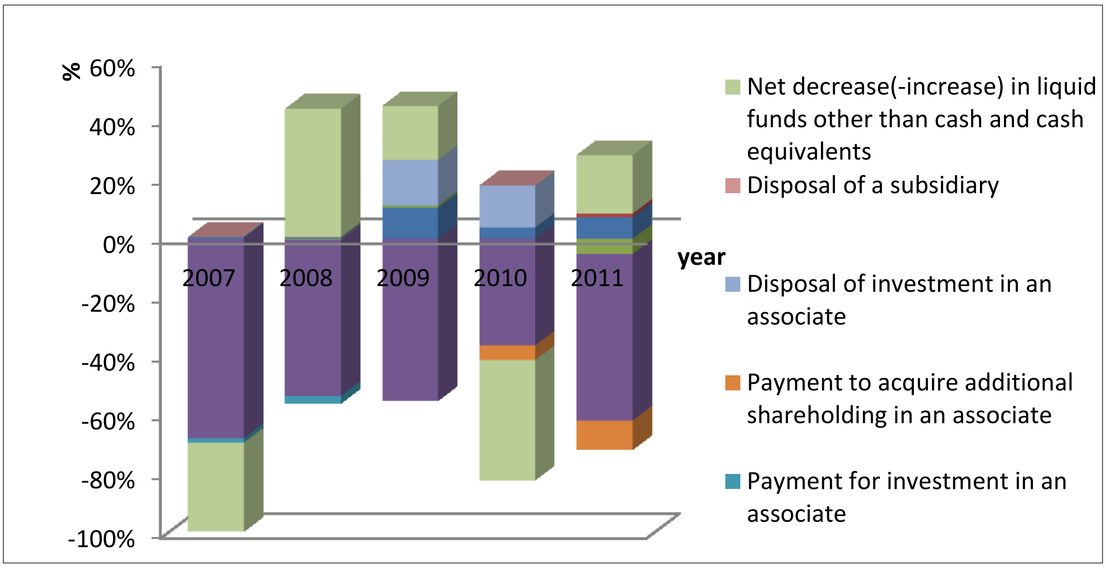


Figure 4.20 Financing Cash Outflow



As for the cash outflow, most money were used to pay the loan and finance lease. It is unbelievable that the loan and finance lease payment accounted for 95% of the financial outflow in 2009. It kept a downward trend after next two years, but still kept the tremendous percentages. The rest of the outflow basically concentrated on the dividend to the shareholders and minority interests. Whereas, in order to going through the financial crisis, the company did not pay the dividends to shareholders in 2009.

Figure 4.21 Investment Cash Inflow



The figure 4.21 shows the investment cash flow. The parts upon the horizontal axis where it was the cash inflow (figure 4.22) and below horizontal axis was cash outflow (figure 4.23). It is obvious that in the cash outflow exceeded the cash inflow during 5 years. In 2007, the investment cash inflow was unapparent, mostly from the sales of the fixed assets, for instance, selling airplanes. The payments for fixed and intangible assets represented the majority of the investment outflow. In 2007 and 2010 there were net increase in liquid funds other than cash and cash equivalents. In the year 2008, 2009 and 2011, the net decrease in liquid funds other than cash and cash equivalents took considerable proportions. As for the disposal of investment in an associate, there was a rise during the 2009 and 2011. The other factors just shared a tiny part, which would not make significant effects to the investment cash flow.

Figure 4.22 Investment Cash Inflow

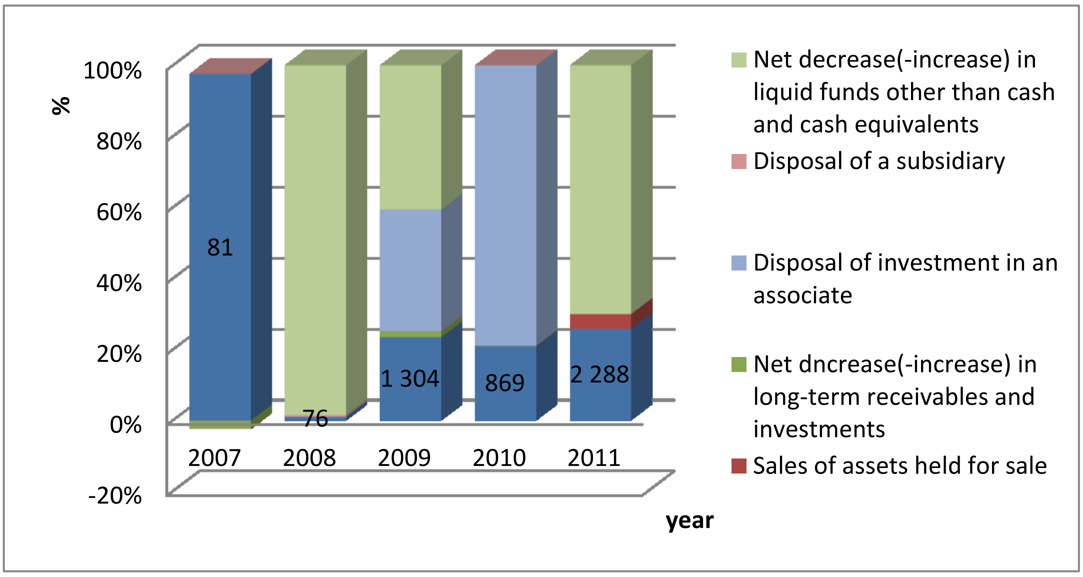
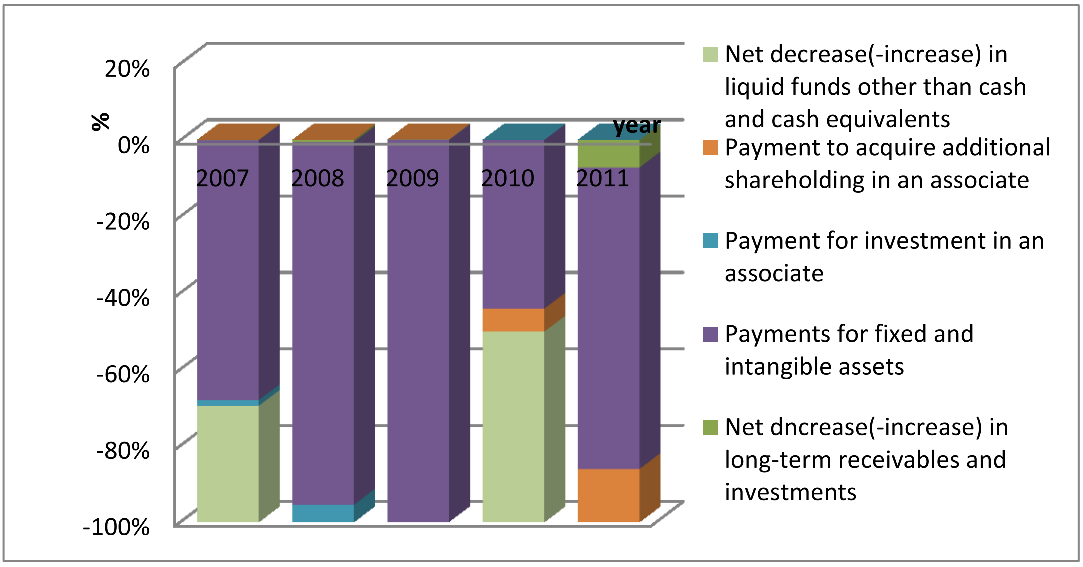


Figure4.23 Investment Cash Outflow



4.3 Financial ratios analysis

In this part, there are mainly four kinds of ratios, used to analyze the Cathay Pacific financial performance. There are profitability ratios, liquidity ratios, solvency ratios, activity ratios.

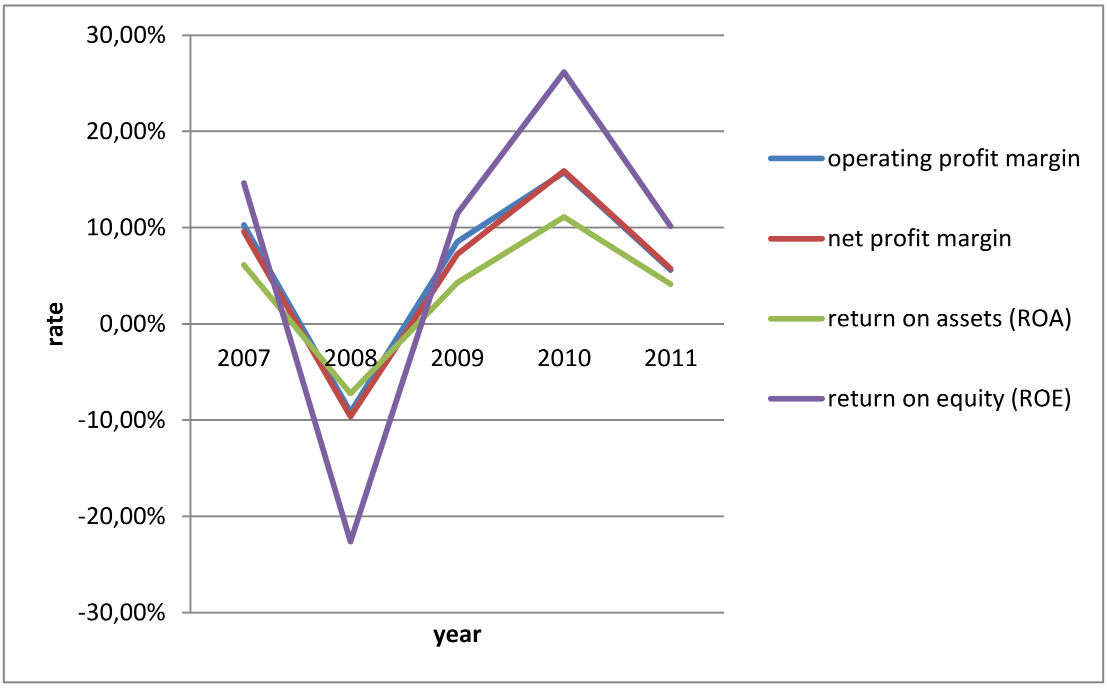
4.3.1 Profitability ratios

The profitability ratios are to measure the ability to generate profit and the return of the invested capital over the selected period. The higher the profitability ratios, the higher capacity to earn profit, the stronger competition ability of the company. According to the data, investors can get the knowledge about the operating profit margin, net profit margin, return on assets, and return on equity, which are the most useful data to analyze the company.

Table 4.5 Profitability Ratios

	2007	2008	2009	2010	2011
Operating profit margin	10.27%	-9.16%	8.56%	15.73%	5.59%
Net profit margin	9.57%	-9.63%	7.26%	15.90%	5.76%
Return on assets (ROA)	6.13%	-7.24%	4.29%	11.11%	4.13%
Return on equity (ROE)	14.64%	-22.63%	11.48%	26.15%	10.14%

Figure2.24 Profitability Ratios



Operating profit margin

According to the table 4.5 and the figure 4.24, it is easy to notice that the ratio stood at 10.27% in 2007, followed by a dramatically drop to the lowest point to -9.19%. From then on there was an upwards trend to 15.73% in 2010, which was followed by a slightly fall to 5.59%. In 2008, due to the decreasing turnover, the business efficiency was at a low level. While, from then on, the capacity of general operating profit by company managers with considering operating costs was recovery back.

Net profit margin

The table 4.5 measures that the capacity of Cathay pacific obtained the revenues over five years. The figure 4.24 shows the changes of the net profit margin from 2007 to 2011. In 2007, the ratio stood at 9.57%. Then the index keep declined until it hit the bottom in 2008, followed by a dramatically rise to the peak in 2010(15.90%). There was slightly fall to 5.76% in 2011. Thanks to the total turnover increased year by year with net income increased over years, gain the net profit margin improved in 2009 and 2010. The reason why there was a slightly fall in 2011 was increasing costs caused by the increasing fuel.

Return on assets

The return on assets (ROA) can measure the return yield by the company on the assets. According to the table 4.5 and figure 4.24, the amount and the changes of the return on assets can be seen. It is interesting that the trend of the return on assets over the five years was similar to the trend of the net profit margin and the operating profit margin. So, investors can make sure that the loss in 2008 had huge influence to the company.

Return on equity

The return on equity estimates the return yield by the company on the equity part. In 2007, the ability of return on equity stood at 14.64%, followed by a significant decrease to -22.63%. Then with the increase of the turnover, the index went up. That is to say the company achieved a better profitability by revealing upward trend profit it yielded which shareholders had invested (equity)

According to the figure 4.24, investors could find the rule, due to the changes of the turnover, the trend of the four main ratios were quite similar. In the 2008, it was the lowest point, and in 2010, it reached the peak. From above discussion, the ability of the Company to yield profit from fiscal 2007 and 2011 can be comprehended. As the figure 4.24 revealed, Cathay Pacific got highest value of every profitability indicator in 2010 and the lowest in 2008. It is easy to find out that the poor performance in fiscal 2008 was contributed by the high costs and low revenue.

4.3.2 Liquidity ratios

Liquidity ratios can help us to figure out the ability to take action its immediate or short term liabilities and obligations. The most important factors are the current ratio, quick ratio and the cash ratio.

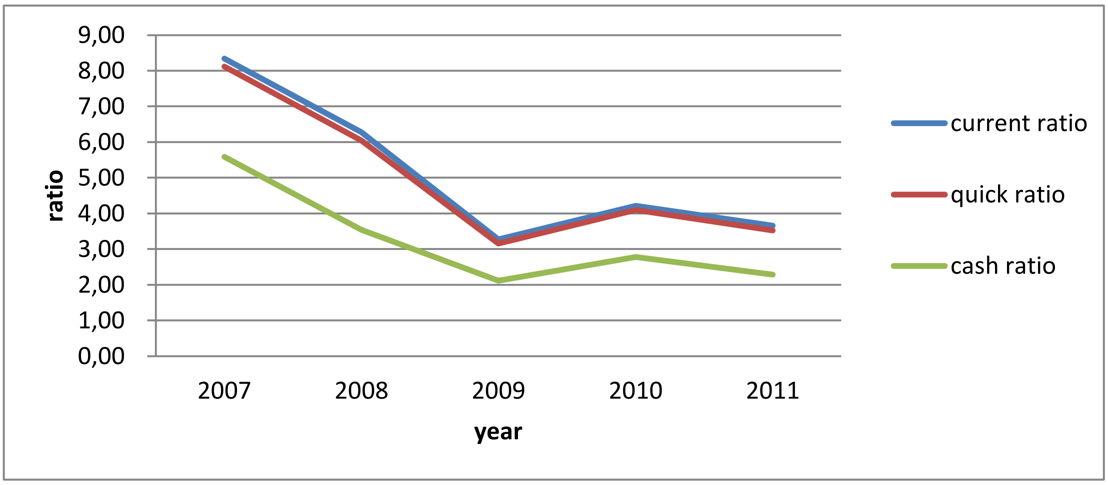
Current ratio

Current ratio refers about current assets and current liability. It means the company ability to meet the short obligation. According to the table 4.6 and the figure 4.25, the current ratio always kept decrease during the five years, because the current assets declined, while the current liabilities went up. It meant that the level of liquidity lower than before.

Table 4.6 Liquidity Ratios

	2007	2008	2009	2010	2011
Current ratio	8.34	6.27	3.27	4.21	3.66
Quick ratio	8.11	6.05	3.15	4.09	3.53
Cash ratio	5.58	3.55	2.11	2.78	2.29

Figure 4.25 Liquidity Ratios



Quick ratio

There are no many differences between quick ratio and current ratio, except for the inventory. However, as an airplane company, there is no inventory. So the differences are less and less. According to the table 4.6, and figure 4.25, it could be estimated the ability of the liquidity. From 2007, the quick ratio continuously declined, due to the drop of the liquid funds and rise of the current liabilities.

Cash ratio

As for the cash ratio, it can size the liquidity capacity during the financial crisis. According to the data from table 4.6 and figure 4.25, it can be concluded that the adaptability to changes is weak, for the drop of the cash ratio.

According to the figure 4.25, compared the three factors, on one hand, the trends are similar (although there were a slightly rise in 2010, the situation did not make different). On the other hand, after the financial crisis, the Cathay Pacific should improve the adaptability to changes, confirming the stable of the company.

4.3.3 Solvency ratios

Solvency can measure the company's ability to meet its long-term obligations and recover their debt. It is used the solvency ratios to assess the level of company's risk.at the first, the solvency ratios would be divided into two types: Component-percentage Solvency Ratios and Coverage Ratios. On general, the component-percentage solvency ratios are used to calculate the trust of the company is on debt financing. And the coverage ratios explain the capacity of the Company to assess the obligations which are related to the debt financing, for instance, interest, principal repayment and other lease payments.

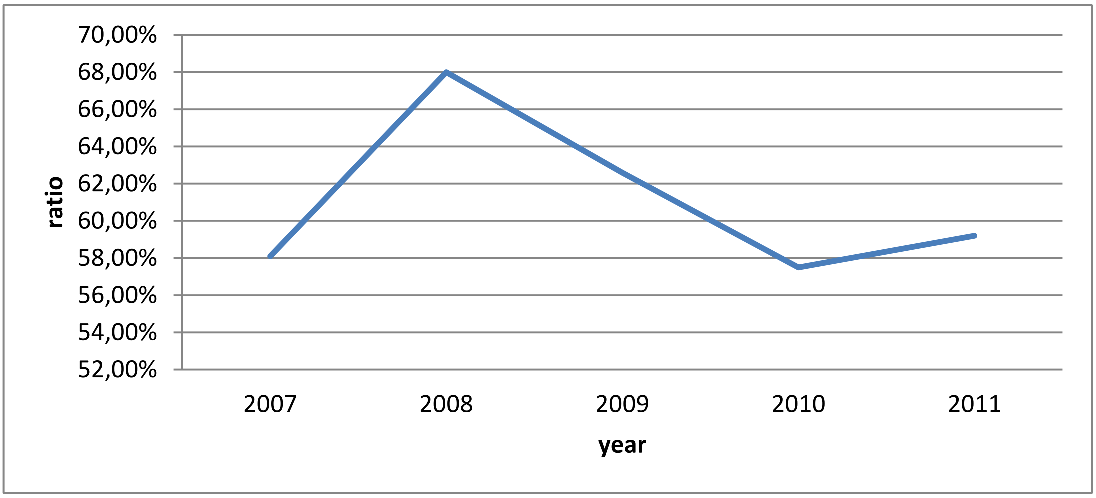
Debt-to-assets ratio

The debt-to-assets ratio is a measure of the percentage of assets to be financed with the debt (both short-term and long-term debt). According to the table 4.7, it is easy to see that in the fiscal 2007 to 2008, there was a dramatically rise from 58.10% to 67.99%, follow by a drop to 57.49 in 2010, after a slightly increase. As investors know, in the fiscal 2008 and 2009, due to the badly management performance, Cathay Pacific increased to borrow money from the bank and private, so, the debt went up significantly. After the tough periods, the debt declined, and the debt-to-assets ratio plunged as well.

Table4.7 Solvency ratios

	2007	2008	2009	2010	2011
Debt-to-assets ratio	58.10%	67.99%	62.60%	57.49%	59.20%
Debt-to-equity ratio	1.39	2.12	1.67	1.35	1.45
Financial leverage	2.39	3.12	2.67	2.35	2.45
Interest coverage	30.75	35.66	46.67	54.09	57.01
Fixed charge coverage	8.43	8.87	7.23	8.95	9.69

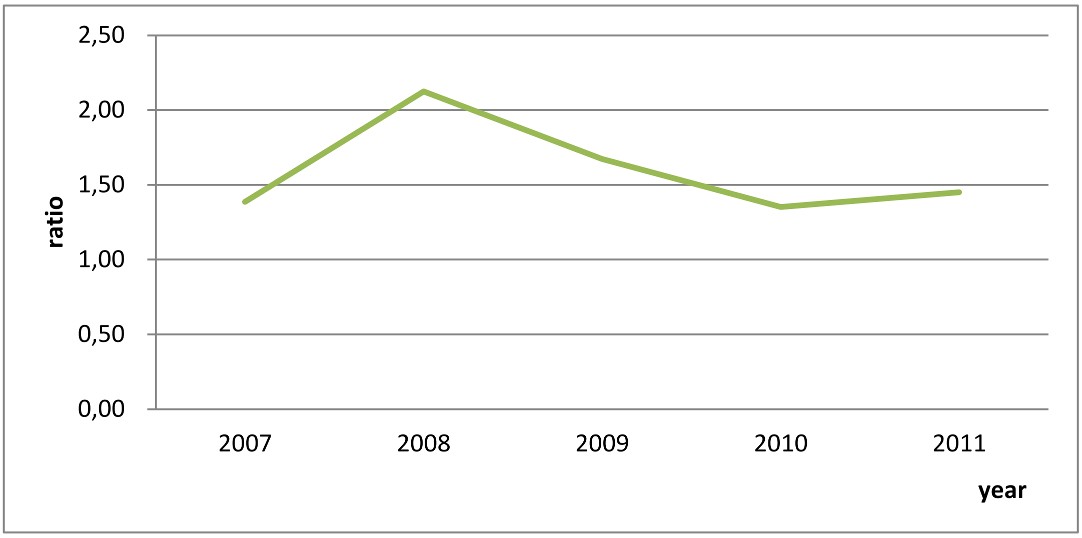
Figure 4.26 Debt-to-assets Ratio



Debt-to-equity ratio

Debt-to-equity ratio reveals the proportion of the company's total liabilities of its equity. With it the ratio of equity and debt, the company is used to finance its assets can be compared. According to the table 4.7, w the debt-to-equity in fiscal 2007, 2010, and 20111, kept the reasonable level. However, in fiscal 2008 and 2009, there were a high debt-to-equity ratio, revealed that, on one hand; Cathay Pacific had been aggressive in financing its growth with debt. On the other hand, it is to protect the company from the financial crisis.

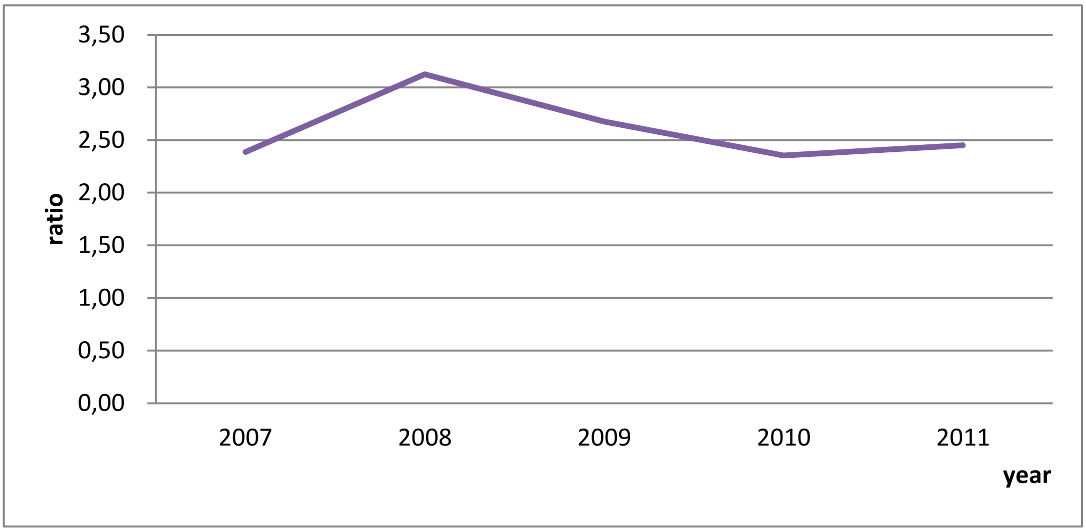
Figure 4.27 Debt-to-equity Ratio



Financial leverage

The financial leverage is a part of the component-percentage category. It is the proportion of total assets of the company to the total equity. And it reveals the relation between the assets and the equity. The higher financial leverage ratio, the stronger power to use debt to finance the assets is. According to the table 4.7 and the figure 4.28, it is easy to find out that the financial leverage remarkable grew to the highest point in 2008, followed by a gradually fall to the reasonable level in the next 3 years. In fiscal 2008, due to the higher financial leverage, the more leveraged of the company to use the equity to finance the assets. Compared the financial leverage with the debt-to-equity, according to the data, it can be notice that the financial leverage is equal to the sum of the debt-to-equity and one.

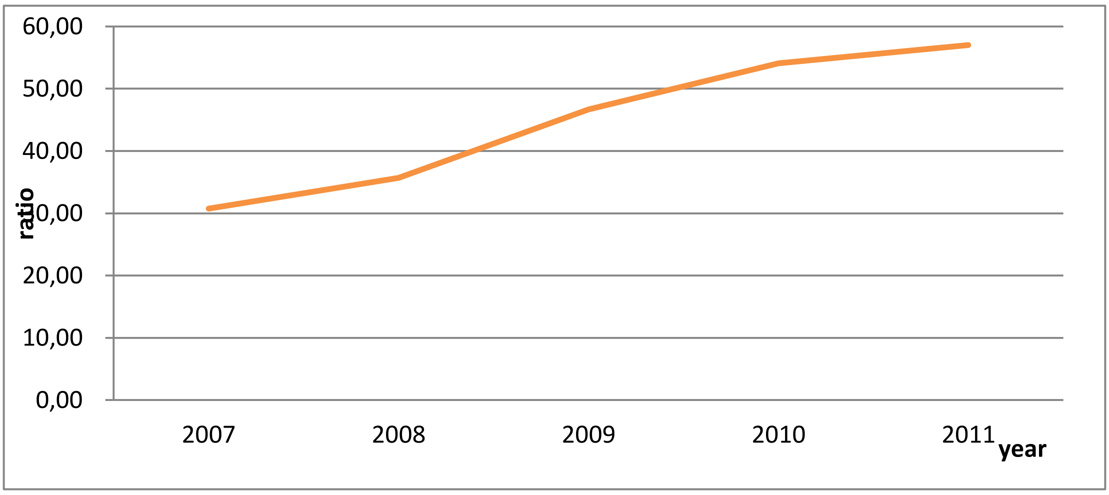
Figure 4.28 Financial Leverage



Interest coverage

Interest coverage calculates the revenue to finance the interest payment. Interest coverage is a part of the coverage ratios. The lower the interest coverage ratio, the larger the debt burden is on the Company. According to the table 4.7 and the figure4.29, it is easy to see that there was a continuous upward trend over the five fiscal years, from 30, 75 in 2007 to 57.01 in 2011. The upward trends described that there was a positive attitude of the company to pay the debt. In another word, in 2007, the interest coverage was low, which meant that there was a larger debt burden on the company.

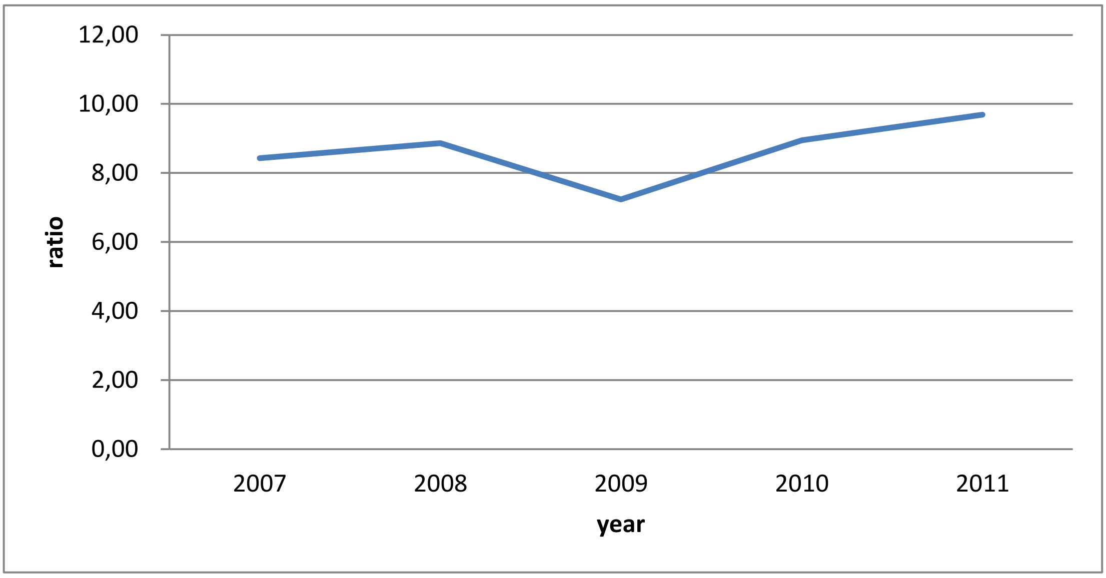
Figure 4.29 Interest Coverage



Fixed charge coverage

According to the data, the fixed charge coverage is the sum of turnover, aircraft depreciation and operating (others) leases divided by the sum of the financial outcome and the aircraft depreciation and operating (others) leases. According to the table 4.7 and the figure 4.30, there was an upward trend over the fiscal years, except for the year 2009(when there was a dip to 7.23). Because the turnover dropped from HK 86578 million in 2008 to HK 66978 million in 2009.

Figure 4.30 Fixed Charge Coverage



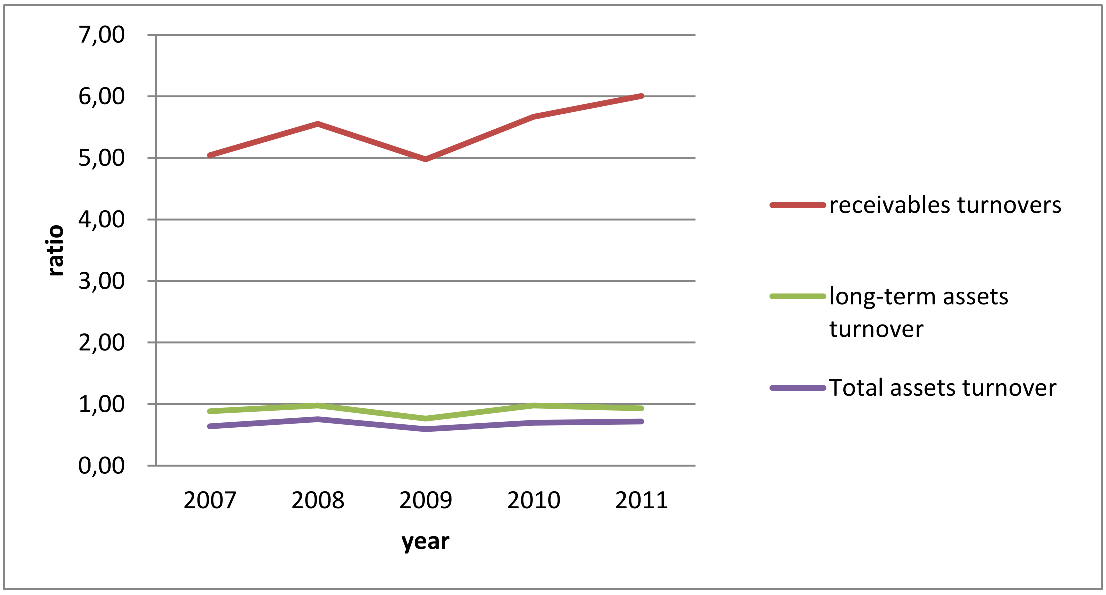
4.3.4 Activity ratios

The activity ratios measure how well a company uses its assets. Besides the assets efficiency utilization has direct effect on liquidity. According to the table 4.8 and the figure 4.31, it could be found out the receivables turnovers, long-term assets turnover, and the total assets turnover shared the same trend over the five selected years. Due to the drop of the revenue in 2009, it could be noticed that there was a dip in every ratio at that moment. From then on, the data kept soar.

Table 4.8 Activity ratios

	2007	2008	2009	2010	2011
Receivables turnovers	5.05	5.55	4.97	5.67	6.00
Long-term assets turnover	0.88	0.98	0.76	0.98	0.93
Total assets turnover	0.64	0.75	0.59	0.70	0.72

Figure4.31Activity ratios



4.4 Analysis based on Pyramidal Decompositions

Pyramidal decompositions are to show the basic ratio as a product of component ratios, which is able to analyze the sources of financial ratios' value, and what elements have significant effect on its value and evolution. The analysis based on Pyramidal Decompositions is also known as DuPont analysis. The table 4.9 shows the basic data about pyramidal decomposition: Return on Equity (ROE) is decomposed by three distinct elements: profit margin, total asset turnover and financial leverage. It is the foundation for the method of gradual change and Logarithmic method.

Table 4.9 Pyramidal decomposition

	a_{2007}	a_{2008}	a_{2009}	a_{2010}	a_{2011}
a_1=EAT/REV (net profit margin)	0.10	-0.10	0.07	0.16	0.06
a_2=REV/ASSETS (Total assets turnover)	0.64	0.75	0.59	0.70	0.72
a_3=ASSETS/EQUITY (financial leverage)	2.39	3.12	2.67	2.35	2.45
ROE	14.64%	-22.63%	11.48%	26.15%	10.14%
Index of change in basic ratio		-154.57%	-50.71%	227.87%	38.76%
Absolute change		-0.37	0.34	0.15	-0.16

4.4.1 The method of gradual change

according to the table 4.10, it shows that the gradual change between 2007-2008, the net profit margin make significant impact.it reveals that the net profit margin take the most effect in ROE. Between 2008and 2009, the net profit margin took the most positive effect than total turnover and financial leverage, while the financial leverage took the less negative impact. Between 2009 and 2010, the same conditions appear, almost similar to 2008-2009. What's more, the comparable between 2011 to 2010, similar to 2007 to 2008, the net profit margin took the most influence, followed by the financial leverage. While the total assets turnover only take little impact. So, the conclusion could be made that the profit margin took the majority influence. The lower financial leverage ratio, the slightly power to use debt to finance the assets is. If the company wants to increase the ROE, the company should focus on the net profit margin.

Table 4.10 the method of gradual change over five years

2007-2008					
	a_1	a_2	Δa_1	ΔX_{ai}	order
a_1=EAT/REV (net profit margin)	0.10	-0.10	-0.19	-29.37%	1
a_2=REV/ASSETS(Total assets turnover)	0.64	0.75	0.11	-2.56%	3
a_3=ASSETS/EQUITY (financial leverage)	2.39	3.12	0.74	-5.34%	2
sum				-37.27%	
2008-2009					
	a_1	a_2	Δa_1	ΔX_{ai}	order
a_1=EAT/REV (net profit margin)	-0.10	0.07	0.17	39.70%	1
a_2=REV/ASSETS(Total assets turnover)	0.75	0.59	-0.16	-3.66%	2
a_3=ASSETS/EQUITY (financial leverage)	3.12	2.67	-0.45	-1.93%	3
sum				34.10%	
2009-2010					
	a_1	a_2	Δa_1	ΔX_{ai}	order
a_1=EAT/REV (net profit margin)	0.07	0.16	0.09	13.65%	1
a_2=REV/ASSETS(Total assets turnover)	0.59	0.70	0.11	4.59%	2
a_3=ASSETS/EQUITY (financial leverage)	2.67	2.35	-0.32	-3.57%	3
sum				14.67%	
2010-2011					
	a_1	a_2	Δa_1	ΔX_{ai}	order
a_1=EAT/REV (net profit margin)	0.16	0.06	-0.10	-16.67%	1
a_2=REV/ASSETS(Total assets turnover)	0.70	0.72	0.02	0.25%	3
a_3=ASSETS/EQUITY (financial leverage)	2.35	2.45	0.10	0.41%	2
sum				-16.01%	

4.4.2 Logarithmic decomposition method

Table 4.11 Logarithmic decomposition method over five years

2007-2008					
	a1	a2	La	Δai	order
a1=EAT/REV (net profit margin)	0.10	-0.10	-1.01	n.a	
a2=REV/ASSETS(Total assets turnover)	0.64	0.75	1.17	n.a	
a3=ASSETS/EQUITY (financial leverage)	2.39	3.12	1.31	n.a	
sum					
2008-2009					
	a1	a2	La	Δai	order
a1=EAT/REV (net profit margin)	-0.10	-0.19	1.99	n.a	
a2=REV/ASSETS(Total assets turnover)	0.75	0.11	0.15	n.a	
a3=ASSETS/EQUITY (financial leverage)	3.12	0.74	0.24	n.a	
sum					
2009-2010					
	a1	a2	La	Δai	order
a1=EAT/REV (net profit margin)	0.07	0.16	2.19	13.96%	1
a2=REV/ASSETS(Total assets turnover)	0.59	0.70	1.18	2.99%	2
a3=ASSETS/EQUITY (financial leverage)	2.67	2.35	0.88	-2.28%	3
sum				14.67%	
2010-2011					
	a1	a2	La	Δai	order
a1=EAT/REV (net profit margin)	0.16	0.06	0.36	-17.15%	1
a2=REV/ASSETS(Total assets turnover)	0.70	0.72	1.03	0.44%	3
a3=ASSETS/EQUITY (financial leverage)	2.35	2.45	1.04	0.69%	2
sum				-16.01%	

If the company be analyzed in different ways. The table 4.12 shows the comparable between two years over the period 2007 to 2011. Due to the horrible loss in 2008, so the net profit margin was below zero, which leaded to the result using the logarithmic algorithm cannot be calculated. But it shows in another way that the positive (over zero) data is needed in logarithmic algorithm. While in comparison between 2009 and 2010, it shows that the net profit margin took the most significant positive impact to the ROE among the net profit margin, total assets turnover, and the financial leverage. However, in 2010 to 2011, the data shows that the net profit margin took majority influence. Furthermore, the net profit margin took the worst negative effect. While the total assets turnover took the minority influence on the ROE, besides the total assets turnover and the financial leverage took the positive to the ROE.

Compared the method of gradual change and method, it shows the difference about the basic data. Due to the 2008-2009 and 2009-2010. There is no logarithmic data, which means that logarithmic way to calculate, has their limitation. In 2009-2010 and 2010 to 2011, the sums of two methods are the same, but there are still some tinny differences in detail. It reveals that although two methods can be described the effective of net profit, total assets turnover and financial leverage to the ROE, the little differences can be found.

Table 4.12 the difference between the method of gradual change and Logarithmic method.

2007-2008			
	method of gradual change	logarithmic method	difference
a1=EAT/REV	-29.37%	n.a	n.a
a2=REV/ASSET	-2.56%	n.a	n.a
a3=ASSET/EQUITY	-5.34%	n.a	n.a
∑sum	-37.27%		
2008-2009			
	method of gradual change	logarithmic method	difference
a1=EAT/REV	39.70%	n.a	n.a
a2=REV/ASSET	-3.66%	n.a	n.a
a3=ASSET/EQUITY	-1.93%	n.a	n.a
∑sum	34.10%		
2009-2010			
	method of gradual change	logarithmic method	difference
a1=EAT/REV	13.65%	13.96%	0.31%
a2=REV/ASSET	4.59%	2.99%	-1.60%
a3=ASSET/EQUITY	-3.57%	-2.28%	1.29%
∑sum	14.67%	14.67%	0.00%
2010-2011			
	method of gradual change	logarithmic method	difference
a1=EAT/REV	-16.67%	-17.15%	-0.48%
a2=REV/ASSET	0.25%	0.44%	0.19%
a3=ASSET/EQUITY	0.41%	0.69%	0.29%
∑sum	-16.01%	-16.01%	0.00%

5. Conclusion

Cathay pacific is a world admired company, ranked 4th in the in the World Airline Awards in 2012. Cathay pacific aims to be the world's best airline, which means that it chases to excel and be out-standing in the field they do. It provides the best quality service to satisfy their customers. The subsidiaries and associates also attracted a great deal of attention from the world.

The aim of the bachelor thesis is financial analysis of the Cathay Pacific, which estimates the history and current situation about the Cathay pacific in different fields.

Based on the financial analysis mentioned, it can be noticed that, from the common size analysis on generally, Cathay pacific runs well, excepted in 2008, when the financial crisis made enormous negative impact to the performance of Cathay Pacific. In 2009, the trends of recovery could be found, according to the climbing of the net profit. In the following years, the Cathay Pacific came to the period of keep stable growth. From the data, it shows that the expense of the fuel was critical to the development of Cathay pacific. As for the structure, the company always kept regular structure, except in 2008, when the company adopted the emergency measures to increase the debt to go through the tough period. After the financial crisis, the company tried their best to adjust the structure to the optimum. From the financial ratios analysis, the profitability ratios hit the lowest point in 2008, when the company suffered the financial crisis. The slightly fluctuation was described the influence by the rise and fall of the fuel. As for the liquidity ratios, the higher liquidity ratios, the stronger ability of the company to satisfy its immediate obligations. But after the financial crisis, the ability of the Cathay Pacific was lower and lower. What‘s more, the solvency ratios can assess the Cathay Pacific level of financial risk. It could be founded the component-percentage solvency ratios reached the highest point in 2008, when the company obligated the largest amount of debt, which shows the company bother highest business risk in 2008. The activity ratios try to assess the company's effective in the use of its assets. It is noticed that the revenue suffered from financial crisis in 2009. However the turnover rates were booming after the tough time. As for the pyramidal decomposition, both method of gradual changes and logarithmic decomposition method show the net profit margin takes the most significant impact on the ROE. In another word, the net profit margin drives the value of financial ratios.

At last, it can be found that this financial analysis of the Cathay Pacific provided a clear performance description from fiscal 2007 to 2011 and also suggested how the Cathay Pacific should develop and adjust its strategy in the future. Now, the Company has recovered from big recession and a bright future should be witnessed.

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List of Abbreviations

C P	Cathay Pacific.
ROA	Return on Assets
ROE	Return on Equity
EBIT	Earnings before Interest and Tax
EAT	Earning after Tax
REV	Revenue

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Here with I declare that

– I am informed that Act No. 121/2000 Coll. – the Copyright Act, in particular, Section 35

– Utilization of the Work as a Part of Civil and Religious Ceremonies, as a Part of School Performances and the Utilization of a School Work – and Section 60 – School Work, fully applies to my diploma (bachelor) thesis;

– I take account of the VSB – Technical University of Ostrava (hereinafter as VSB-TUO) having the right to utilize the diploma (bachelor) thesis (under Section 35(3)) unprofitably and for own use;

– I agree that the diploma (bachelor) thesis shall be archived in the electronic form in VSB-TUO‘s Central Library and one copy shall be kept by the supervisor of the diploma (bachelor) thesis. I agree that the bibliographic information about the diploma (bachelor) thesis shall be published in VSB-TUO‘s information system;

– It was agreed that, in case of VSB-TUO‘s interest, I shall enter into a license agreement with VSB-TUO, granting the authorization to utilize the work in the scope of Section 12(4) of the Copyright Act;

– It was agreed that I may utilize my work, the diploma (bachelor) thesis, or provide a license to utilize it only with the consent of VS B-TUO, which is entitled, in such a case, to claim an adequate contribution from me to cover the cost expended by VSB-TUO for producing the work (up to its real amount).

Ostrava dated 3rd May, 2013

Yue Wang

Yue Wang

List of Annexes

Annex 1 Balance Sheet

					(HK$M)
	2007	2008	2009	2010	2011
ASSETS					
NON-CURRENT ASSETS					
Fixed assets	62,388	66,039	65,495	66,112	73,498
Intangible assets	7,782	7,782	7,850	8,004	8,601
Investments in associates	9,896	9,581	9,042	12,926	17,894
Other long-term receivables and investment	5,119	4,949	5,307	4,359	5,783
	85,185	88,351	87,694	91,401	105,776
CURRENT ASSETS					
Stock	882	960	947	1,021	1,155
Trade, other receivables and other assets	9,817	10,647	8,161	11,433	10,605
Liquid funds	21,649	15,088	16,522	24,198	19,597
	32,348	26,695	25,630	36,652	31,357
TOTAL ASSETS	117,533	115,046	113,324	128,053	137,133
EQUITY					
Share capital	788	787	787	787	787
Reserves	48,283	35,922	41,451	53,487	55,022
Non-controlling interests	178	120	147	155	135
TOTAL EQUITY	49,249	36,829	42,385	54,429	55,944
LIABILITIES					
Net long-term liabilities	32,490	36,025	34,814	30,925	34,773
Other long-term payables	1,490	4,606	1,059	1,700	2,612
Deferred taxation	6,621	4,831	5,255	5,815	6,797
Net current portion of long-term liabilities	3,878	4,255	7,828	8,704	8,562
Trade and other payables	12,538	17,722	12,965	15,773	17,464
Unearned transportation revenue	8,792	8,649	8,075	9,166	9,613
Taxation	2,475	2,129	943	1,541	1,368
TOTAL LIABILITIES	68,284	78,217	70,939	73,624	81,189

Annex 2 Income statement

					(HK$M)
	2007	2008	2009	2010	2011
TURNOVER					
Passenger services	49,520	58,046	45,920	59,354	67,778
Cargo services	21,783	24,623	17,255	25,901	25,980
Catering, recoveries and other services	4,055	3,909	3,803	4,269	4,648
TOTAL TURNOVER	75,358	86,578	66,978	89,524	98,406
EXPENSES					
Staff	12,142	12,428	12,618	13,850	14,772
Inflight service and passenger expenses	2,903	3,336	2,915	3,308	3,794
Landing, parking and route expenses	9,950	11,039	10,458	11,301	13,105
Fuel	24,624	47,317	17,349	28,276	38,877
Aircraft	6,830	7,643	6,567	7,072	8,468
Aircraft depreciation and operating leases	6,369	7,211	7,978	8,288	8,197
Other depreciation and operating leases	998	1,060	1,103	1,107	1,205
Commissions	860	851	571	736	791
Others	2,943	3,154	2,940	4,533	3,697
OPERATING EXPENSES	67,619	94,039	62,499	78,471	92,906
OPERATING PROFIT/LOSS BEFORE NON-RECURRING ITEMS	7,739	7,461	4,479	11,053	5,500
Profit on disposal of investments	0	0	1,254	2,165	0
Gain on deemed disposal of an associate	0	0	0	868	0
Settlement of the United States Department of Justice cargo investigations	0	468	0	0	0
OPERATING PROFIT/LOSS	7,739	-7,929	5,733	14,086	5,500
Finance charges	2,451	2,428	1,435	1,655	1,726
Finance income	1,664	1,416	588	677	982
Share of profits/losses of associates	1,057	-730	261	2,587	1,717
PROFIT/LOSS BEFORE TAX	8,009	-9,671	5,147	15,695	6,473
Taxation	-799	1,337	-283	-1,462	-803
PROFIT/(LOSS) FOR THE YEAR	7,210	-8,334	4,864	14,233	5,670

Annex 3 Cash Flow

					(HK$M)
	2007	2008	2009	2010	2011
OPERATING ACTIVITIES					
Cash generated from operations	16,101	3,882	4,490	18,844	15,393
Dividends received from associates	274	383	174	100	417
Interest received	322	258	79	89	119
Net interest paid	-1,454	-1,305	-965	-624	-488
Tax paid	-2,075	-1,402	-1,743	-810	-1,461
NET CASH INFLOW FROM OPERATING ACTIVITIES	13,168	1,816	2,035	17,599	13,980
INVESTING ACTIVITIES					
Sales of fixed assets	81	76	1,304	869	2,288
Sales of assets held for sale	0	0	0	0	361
Net decrease(-increase) in long-term receivables and investments	-2	-51	92	7	-1,604
Payments for fixed and intangible assets	-9,801	-9,228	-6,776	-8,299	-17,610
Payment for investment in an associate	-214	-439	6	0	0
Payment to acquire additional shareholding in an associate	0	0	0	-1,130	-3,098
Disposal of investment in an associate	0	0	1,901	3,260	0
Disposal of a subsidiary	0	42	0	0	0
Net decrease(-increase) in liquid funds other than cash and cash equivalents	-4,377	7,556	2,250	-9,370	6,185
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	-14,313	-2,044	-1,223	-14,663	-13,478
FINANCING ACTIVITIES					
New financing	7,217	6,665	6,169	5,815	12,187
Net cash benefit from financing arrangements	987	772	585	488	1,467
share issued	32	-133	8	0	0
Loan and finance lease payments	-3,710	-3,810	-4,362	-9,290	-8,874
Security deposits placed	-111	-109	-117	-59	-56
Dividends paid - to shareholders	-2,245	-2,438	0	-1,691	-3,777
- to minority interests	-161	-258	-143	-177	-189
NET CASH INFLOW FROM FINANCING ACTIVITIES	2,009	689	2,140	-4,914	758
INCREASE IN CASH AND CASH EQUIVALENTS	864	461	2,952	-1,978	1,260
Cash and cash equivalents at 1st January	5,767	6,773	7,045	10,094	8,272
Effect of exchange differences	142	-189	97	156	80
CASH AND CASH QUIVALENTS AT 31ST DECEMBER	6,773	7,045	10,094	8,272	9,612